





## NEWS: CRISIS IN RUSSIA

# Change of economic course in wind

Russia looks to IMF and World Bank for speedy help, writes John Lloyd

THE RUSSIAN government expects accelerated assistance from the International Monetary Fund and the World Bank before the end of the year, with the \$1.5bn (2993m) second tranche of the IMF's systemic transformation facility likely to be paid next month.

Meetings last week in Washington between Mr Boris Fyodorov, finance minister, and the leadership of the Fund and the Bank encouraged both institutions to hope for a decisive change of course in an economic policy which had gone badly off course in the past three months. Inflation reached around 27 per cent in August and about 20 per cent the following month, according to figures released yesterday by the government's Economic Reform Centre.

Mr Fyodorov told both institutions he expected that results of a tighter financial and budgetary policy would be obvious by the end of this month. The governments of the Group of Seven leading industrial countries want to support President Boris Yeltsin in the run-up to the parliamentary elections scheduled for December.

They are also keen that the elections take place no later than December so that the period in which he can indulge in a pre-election spending spree to bolster his popularity is kept to a minimum.

Mr Sergei Vassiliev, head of the Economic Reform Centre, said the administration was preparing a raft of measures under the heading of a "Plan for Economic Work in 1994". These would centre on liberalisation of trade and energy prices, speeding up privatisation and protecting private property, with "post-privatisation" reforms designed to make enterprises now in the private sector more efficient, and to streamline the relationship between the federal and regional budgets.

The absence of the parliament, he said, gave the government a certain freedom of action. But "on the other hand, elections to the new parliament mean that the government cannot plan properly in this period".

Emphasising the seriousness of the present economic situation, Professor Richard Layard, an adviser to the government, said yesterday that the rise of central bank credits in the third quarter was likely to be around 40 per cent, against a target of 20 per cent.

He said that an extra cause of alarm was that the velocity of money transactions - the rate at which money changes hands - had risen sharply. Between October last year and this August, money had increased 4.45 times while prices had increased 7.78 times.

"This means that people are spending their money much faster than before. This was always the great worry - that in an inflationary situation people don't want to hold on to their money. It's dangerous because even if you manage to stick to the credit targets, you don't necessarily check inflation."

He said that measures to restrict credits and bring down the budget deficit "would be very hard - but inflation is also very hard on people".

Reformers in the government are now pressing hard for the resignation of Mr Viktor Geraschenko, central bank chairman. Mr Andrei Illarionov, economic adviser to Mr Viktor Chernomyrdin, the prime minister, said yesterday that since the bank had been brought under government control on September 31 following the banning of parliament, it had refused to carry out an order to remit its profits to the government.

Mr Illarionov, in a detailed critique of the bank, said yesterday that its "senseless" decision in July to declare invalid all pre-1993 cash roubles had increased inflation in August by up to 15 per cent, and in September by around 7 per cent as cash flooded back into Russia from former Soviet republics still using the rouble.

The bank's announcement on Monday that transactions in foreign currency were to be declared invalid from January 1 was not backed by the government, and was impossible to implement.

Mr Vassiliev said the economy was now extensively dollarised: between a third and a half of cash money circulating on deposit was now in dollars. "The central bank's action is stupid, and they must change it," he said.

Mr Vladimir Vinogradov, head of the Moscow Bankers' Association, called the decision "premature and another mistake by the central bank". There was, he said, no point in banning foreign currency until trust was restored in the rouble.

The scanty good news is that privatisation continues at a rapid rate. According to figures from the Centre for Economic Performance, some 20 per cent of workers now work for companies in the private sector. Prof Layard said that between 3 and 4 per cent of Russian industry was being privatised each month.

"This is the fastest rate of privatisation in human history."

"In one month the Russian government is privatising more than Mrs Thatcher [former British prime minister] did in 10 years."

Two regional governors lose their jobs in battle of wills

## Regions regard Moscow moves with wary eye

By Leyla Boulton and Gillian Tett in Moscow

WHEN BUSINESSMEN in Russia's Novosibirsk region wrote to President Boris Yeltsin complaining about the threatened sacking of the local governor, the reply came from an official in the president's office.

The fact that the letter was not answered by Mr Yeltsin himself was seen as an example of arbitrary rule from the president in Moscow.

"It's like when the politburo in Communist times controlled everything, including the government," Mr Vyacheslav Tyabotkin, a spokesman for the Novosibirsk regional administration, told the Financial Times yesterday.

Having overcome his opponents in Moscow with a show of force, President Yeltsin has a fine line to tread between dictatorial high-handedness and reformist determination. It will be difficult enough to find a balance between vital political reforms devolving power to the regions while retaining for Moscow enough power to maintain a single financial policy and a universal tax system.

The sackings yesterday of two powerful regional governors opposed to Mr Yeltsin was the first salvo in the president's battle to impose his will on the regions, even though most of the other 88 regional governors support him.

The two governors sacked - Mr Vitaly Mukha, Novosibirsk regional head, and Mr A. Surat, Amur governor - lost their jobs because they had opposed the president's dissolution of parliament, a Kremlin statement said.

Mr Yeltsin's previous attempt to fire Mr Mukha failed after the regional council refused to let him go. On Monday the regional administration condemned violence by both sides in Moscow, calling for early elections of president and parliament and urging the inhabitants of this Siberian province to stay away from rallies and strikes.

Calm has been observed so far, but it is unclear whether some regions will take protest action against the president's attempts to impose his will on them directly.

Mr Kiran Ilyumzhinov, the president of Russia's republic of Kalmykia, last week hosted a meeting at which regional leaders, most of them from republics, discussed the possibility of economic sanctions - such as closing railways and pipelines - to forestall such action.

Having tried to broker peace talks between Mr Yeltsin and Mr Alexander Rutskoi, the vice-president, Mr Ilyumzhinov has also been given a heavy hint to fall into line in future: Mr Yeltsin's anti-corruption committee leaked a report on Monday that he may have been

involved in corrupt deals related to the vice-president.

In a second salvo, a presidential aide said that Mr Yeltsin was considering whether to dissolve all regional councils, or only those which had opposed his orders for new elections.

Only half of the councils have come out in support of Mr Yeltsin's decree dissolving parliament last week and calling new elections. They have all been concerned to prevent bloodshed from spilling into the regions, but a meeting of the Federation Council - to represent regional leaders -

It will be difficult to find a balance between vital reforms devolving power while retaining for Moscow the power to keep a single financial policy

was postponed yesterday while the president decides whether the local councils should be represented on it and, if so, which councils.

Many have taken a cautious line, refraining from voting outright against Mr Yeltsin's instructions.

The regional council in the Urals region of Perm for instance failed to obtain a quorum to condemn the dissolution of parliament. But a spokesman for the Perm administration said yesterday that their "ambiguous statement" after events in Moscow suggested they were not completely loyal.

In the mining Kuzbass region, a local administration spokesman said that the council and administration were working together to prevent Moscow's violence from spreading locally.

If Mr Yeltsin calls for re-election of the soviets, or councils without a reform of the role - he could find himself with the same people in charge of unreformed legislatures.

Mr Yuri Luzhkov, the mayor of Moscow who helped put down the uprising against Mr Yeltsin, set the example yesterday by dissolving Moscow's city and district councils and saying they would be replaced by a single new-look city council which would not meddle in his day-to-day running of the city.

## Communist spectre returns to haunt media

By Leyla Boulton in Moscow

THE CHIEF villain of the Communist regime - the censor - has returned to Russia's political stage.

It appeared yesterday that media censorship was part of the state of emergency declared by President Boris Yeltsin on Sunday night, covering even some newspapers that have generally supported him.

An article describing panic in the Kremlin on the night of the rebellion by President Yeltsin's enemies was one of the articles removed by the censor who visited the offices of Russia's independent Sevodnya newspaper.

Along with this came the banning of at least eight "opposition" newspapers, such as Communist Pravda, and the extremist Den (Day).

The other item removed by the censor from yesterday's edition of Sevodnya was a protest against the closing down of newspapers.

Mr Dmitry Ostalsky, Sevodnya's editor, said yesterday that while he accepted the right of the censor to edit copy for the sake of a temporary state of emergency, the rapid restoration of a pluralistic and independent media was essential for the conduct of fair elections scheduled in December.

"Nobody will take seriously the results of any elections conducted in a state of emergency," he said. Fully in favour of Mr Yeltsin's radical economic reforms, Sevodnya, founded by Mr Vladimir Gussinsky, chairman of the Most (Bridge) banking and construction group, is one of the first of the financially independent media in Russia. Unlike many other papers, it is not even restricted by depen-

dence on state subsidies.

His views were shared by many in the president's own entourage and among supporters of his reforms. In the first serious public split over how to move from Mr Yeltsin's week-long state of emergency to new democratic elections.

Mr Mikhail Poltoranin, a presidential aide who had been standing in as information minister, resigned yesterday, apparently in protest at the censorship. His functions are to be taken over by Mr Vladimir Shumeiko, the first deputy prime minister.

Miss Alla Yarushinskaya, a member of the president's advisory council, told a radio interviewer that she had "not joined the defenders of Ostankino TV centre to see political censorship imposed the next day on newspapers".

The ban, cited as necessary for maintaining order, even included middle-of-the-road papers such as Rabochaya Tribuna (Workers Tribune), funded by a union of industrialists and a large trade union confederation.

"This newspaper has done its best to keep workers off the streets," said Mr Alexander Vlasov, deputy head of the industrialists' union. The union's president, Mr Arkady Volksy, meanwhile, went to see the prime minister to have the ban lifted on Rabochaya Tribuna.

"We must do our best to preserve immediately the young shoots of democracy," said Mr Vladislavlev in an interview yesterday. He is also chairman of the Renewal party, which plans to take part in the December elections.

Mr Yeltsin must move quickly to demonstrate whether the censorship exercised so far is part of a deliber-



Reading all about it: Russian soldiers yesterday getting a one-sided account of their actions the previous night

## CENSORS SUPPRESS JOURNALISTS' APPEAL FOR FREE SPEECH

THE following is a declaration by journalists of the Liberal Sevodnya (Today) newspaper, which was kept out of yesterday's edition by Russia's new censors:

AFTER the crushing of the armed uprising by the

nationalist-Communist opposition, the ban on opposition newspapers cannot be considered an appropriate measure either from a legal, political or moral point of view.

If the problem is one of genuine subversive activity,

then the authorities can use temporary censorship, allowed for under the state of emergency law, as well as taking legal action provided for by the press law... the absurd and harmful orders closing down the opposition press deprives us of the moral

right to support the present political authorities.

In present conditions, only guaranteed freedom of speech can save the regime from degeneration and arbitrary rule.

Opposition newspapers must be reinstated immediately.

ate policy, or a temporary accident, like some of the other consequences of his state of emergency.

Some of the bannings were clearly directed at nationalist and Communist media outlets opposed to Mr Yeltsin. Yesterday, for example, the "300 Sec-

onds" television programme was suspended. The Information Ministry in Moscow said it had "whipped up nationalist, class, social and religious intolerance". The show is presented by Mr Alexander Nevzorov, a hardline nationalist journalist.

The programme is popular over large areas of western Russia.

Three pro-Yeltsin state-funded newspapers were kept off the streets because their printing house was strafed with bullets. The government's newspaper, Rossiiskaya Vest,

was seized by the government's own security forces - presumably by mistake. Others still could not be delivered to addresses near the White House because the nearby bridge was cut off by tanks involved in the mopping-up operation.

## Russians aim low on state sales

By Sheila Jones

MOST Russians favour privatisation that would allow them to buy their own home, a car, a farm or a shop, according to a survey by Professor Richard Rose of the University of Strathclyde. However, 72 per cent have a negative view of the privatisation of large state-owned enterprises, the cornerstone of the government's privatisation plan.

"The abstractions of capitalism mean even less to the average Russian than the abstractions of socialism," according to Prof Rose. "Thus, the idea of owning a millionth or ten-millionth of a share in a big state enterprise is hard to understand and unappealing."

A total of 1,973 Russians from across the country were interviewed for the survey by the Russian Centre for Public Opinion Research in June and July.

The Russian government had hoped that privatisation vouchers issued to each adult last winter would be invested primarily in large enterprises. But three-quarters or more of those surveyed want to buy property in forms "directly relevant to their own family or household needs", the survey says.

The government had failed to "sell" the idea that privatisation would benefit the majority of people.

## Yeltsin's Tokyo visit to go ahead

By William Dawkins in Tokyo

PRESIDENT Boris Yeltsin is to go ahead with a three-day visit to Tokyo from next Monday, a move which is likely to improve sensitive relations with Japan.

His cancellation of two visits to Tokyo during the past year has blocked progress on a dispute over four islands off northern Japan which were seized by Soviet troops at the end of the second world war.

The cancellations also risked a snub to Japan, Russia's third largest aid donor.

Tokyo yesterday voiced formal regret about the bloodshed in Moscow, but said it would continue to provide financial assistance to Russia.

"We must support [Mr Yeltsin's] way of thinking, which should be good for the world economy as well as world peace," said Mr Hirohisa Fujii, finance minister.

Japan has provided \$5bn to Russia since the Soviet Union collapsed. But it says large-scale economic aid depends on progress on the islands question. Russia and Japan have yet to sign a formal second world war peace treaty because of this. Their return to Japan is becoming an increasing issue of national pride, as Tokyo becomes more confident in international affairs.

"I think it is the right way, to follow the existing policy, to expand economic and political

ties at the same pace," said Mr Morihiro Hosokawa, the prime minister.

Given Mr Yeltsin's problems at home, Japanese officials do not expect to make great progress on the dispute. But they value the opportunity to keep negotiations going.

A Russian delegation is expected to visit Tokyo today to prepare the ground.

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## EC close to accord on waste rules

By David Gardner in Brussels

EC environment ministers moved closer yesterday to agreeing Community-wide rules on packaging waste. A majority of the Twelve inclined towards setting flexible, five-year targets for overall recovery of waste, instead of ambitious five- and 10-year goals for each type of waste, with prescribed portions which had to be recycled.

The shift in opinion is partly a result of Germany's experience with its own recycling legislation, which has sent subsidised German waste exports flooding into other EC states. The UK, France, the Netherlands, Denmark, Belgium, Spain, Ireland and Italy have all complained bitterly that Germany's dumping of waste because of its lack of capacity to deal with its high targets is stifling their own infant recycling industries, particularly for plastics, paper and board.

The German minister, Mr Klaus Töpfer, began yesterday's discussions by offering bilateral negotiations to deal with the problem, after France threatened an import ban at the last environment ministers' meeting in June.

Mr Timothy Yeo, the UK's junior environment minister, said "clearly we will pursue [negotiations with Germany] at official level". The air thus cleared, ministers agreed in principle that setting ambitious percentages for different types of recovery - re-use, recycling, incineration and so

on - could quickly lead the EC into the German waste mountain problem.

The proposal had been for 60 per cent recovery of waste over five years, with 40 per cent recycling, and 90 per cent after 10 years, with 60 per cent recycling.

Ministers now appear likely to settle on the first overall figure, with equivalence of recovery methods that would be decided at national level, and to have a review after five years rather than set a 10-year target now.

The directive would also be strengthened to emphasise prevention, or avoiding the use of material which becomes waste. The Belgian presidency wants the directive settled by the end of this year, and is also pushing for agreement on an EC energy tax to cut greenhouse gas emissions.

However, it made little headway yesterday in softening UK opposition to the mixed carbon and energy tax proposal, which has been mired in controversy for the past 18 months.

The European Commission yesterday attempted to buy a new lease of life for the tax, which would reach \$10 per barrel of oil equivalent by 2000.

It offered a detailed formula to phase in the levy for the poorest four member states. But Mr Yeo reaffirmed that "we are not willing to accept [an energy tax] imposed by the Community". He acknowledged, however, that "this is an issue which is not going to go away".

## Bonn braced for ruling on treaty

The court verdict on Maastricht is expected next Tuesday, reports Quentin Peel

**B**ARRING last-minute flood or pestilence, Germany's constitutional court will rule next Tuesday on whether the Maastricht treaty on European union is in conformity with the country's basic law.

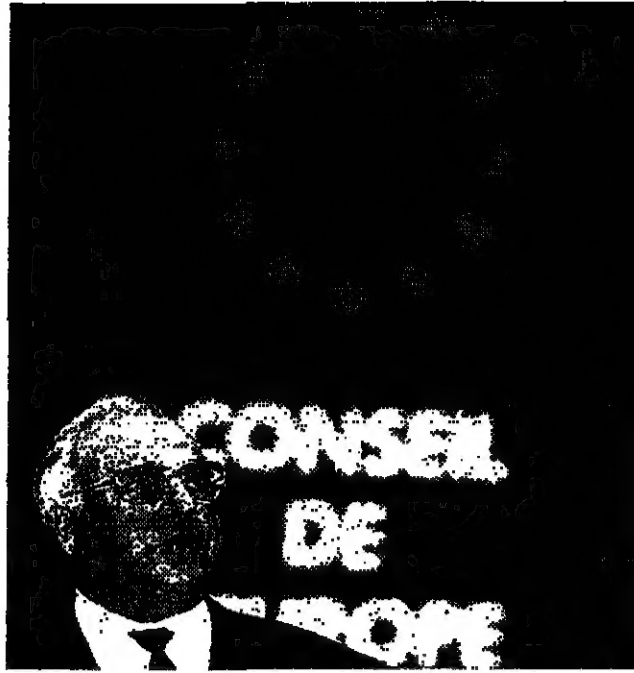
The date has been confirmed by senior officials of the court, while reserving the right to change it at the last minute if the eight learned red-robed judges in the court's second senate so decide.

Whatever happens, both supporters and opponents of the Maastricht treaty are on tenterhooks - the decision could allow Germany to ratify the treaty, or ratify with strings attached. The question is just how tough the conditions would be.

The concern in government circles in Bonn is that the court may attach strict conditions, severely restricting Germany's room for manoeuvre in any future negotiations on further integration in the European Community.

Such restrictions would be profoundly embarrassing for Chancellor Helmut Kohl, as one of the most enthusiastic proponents of Maastricht, but not necessarily fatal for the ratification process.

Opponents of the treaty, who have tabled 20 separate com-



Kohl court could impose embarrassing conditions

plaints before the constitutional court, still hope, but do not really expect, that the court may yet decide that the entire treaty be declared void under the constitution.

"We are in suspense," says Mr Manfred Brunner, former chief of cabinet to Mr Martin

Bangemann, the senior German commissioner in Brussels, and now the treaty's most prominent opponent before the court. "At the very least, I cannot believe that the constitutional court will accept the automatic process leading to the final phase of European

economic and monetary union."

Mr Brunner, who was sacked from his job in Brussels for campaigning against the treaty, hopes the court may decide there should be no final move to Ecu without a referendum in Germany. Given opposition to a single European currency - 71 per cent were against the abolition of the D-Mark in the latest opinion poll - such a referendum would probably reject German participation in Ecu.

Such a drastic condition imposed by the court is still regarded as unlikely.

The Foreign Ministry sees three possible outcomes:

- that the Maastricht treaty is constitutionally acceptable, but that any future steps to transfer national sovereignty to EC institutions must be subject to more restrictive conditions;
- that the treaty must be subject to specific legally-binding "interpretations" to ensure that it is in conformity with the constitution;
- that the deposition of Germany's ratification documents in Rome must be accompanied by unilateral declarations stating that they apply to Germany only to the extent permitted by the country's written constitution.

If the court does decide on the last course of action, it could present a difficulty to the government, for no other EC member state has sought unilaterally to define the application of the treaty.

"We have made it clear to the court that we cannot reopen the treaty," a senior government official said yesterday.

"But nobody has deposited such unilateral declarations before."

The other EC member states would almost certainly have to decide if special German conditions would amount to a form of treaty amendment.

The main grounds of challenge to the treaty tabled by Mr Brunner and other challengers, including Green members of the European Parliament and a senior Justice Ministry official, are that it offends inalienable rights in the German constitution by transferring national sovereignty to institutions over which ordinary German citizens have no control.

Mr Brunner also complains that a new article in the German constitution, on future transfers of sovereignty to Brussels to build a real European union, fails to contain adequate constitutional safeguards.

## German building sector in downturn

By David Waller in Frankfurt

**I**NVESTMENT in the western German construction industry has fallen for the first time in six years, figures from the industry's chief trade association showed yesterday.

According to the Hauptverband der Deutschen Bauindustrie, investment fell by a real 0.2 per cent in the first six months of the year compared with the same period last year. The last fall was in 1987, the association said.

Although the drop is small, it shows the construction sector - typically viewed as the most robust industrial sector in Germany amid the country's worst recession since the second world war - is not immune to the downturn affecting the manufacturing sector.

The small drop in total investment conceals a pronounced fall in construction for the industrial sector - orders were down by nearly 10 per cent.

Public sector construction also fell. This was as a result of the pressure on central and local government to curb expenditure.

## Italians unveil plan to shed 11,600 steel jobs

By Robert Graham in Rome

**I**LVA, the loss-making, state-run steel group, has unveiled plans to axe over a quarter of its 40,000-strong workforce in response to EC pressure to cut Italy's overcapacity and end state subsidies.

The job cuts are part of Ilva's plan to split the group into two companies - flat products and special steels - in order to privatise.

The project is due to be decided at the end of the month by the Ilva board, headed by Mr Hayao Nakamura, the Japanese executive brought in earlier this year to reorganise the group.

According to the plan, 11,600 jobs will be lost between 1994-96, the bulk of which will come from the workforce producing flat products at Taranto, Europe's largest steel plant, and Novi Ligure, near Genoa.

Some 5,000 workers already laid off will not be rehired.

This is a far more radical solution than originally envisaged. It has been drawn up in the past three months after the government recognised the EC would only be satisfied

with a clear commitment to rationalise Ilva.

The trades unions have been warned well in advance and their protests are likely to be directed less at the job cuts than at the redundancy terms, retraining and investments in fresh employment - especially in the Taranto area of southern Italy.

Ilva currently has debts of L5,400bn (\$5.93bn) and in order to split the group into two for privatisation a complex book-keeping operation is expected to take place where some L5,800bn is written off. The main battle will be over the future of Taranto and the smaller flat products plant at Novi Ligure.

One proposal is that Lucchini, the Brescia-based private group, take over the flat products.

Lucchini has already acquired Ilva's Piombino works with France's Usinor-Sacilor, and the unions see the latter lurking behind its offer.

A second proposal, apparently favoured by Mr Nakamura, is that a group of local businessmen back a management buy-out in conjunction with commitments to the work-force.

## Germany set to oppose Spanish rescue scheme

By Ariane Genillard in Bonn

**T**HE German government is likely to oppose a European Commission-backed restructuring plan for the Spanish steel industry unless significant changes are made to it, Bonn officials said yesterday.

The plan, which EC industry ministers will be asked to approve next month, was "completely unacceptable in its present form", they said.

A go-ahead for the Commission which is negotiating with other state-subsidised steelmakers in order to rescue Europe's recession-hit industry.

But opposition to the Spanish deal has been mounting and is now threatening to derail Brussels' attempts to have a EC-wide plan in place by next year.

Under the Spanish proposal, which aims to reduce capacity and state-subsidies, the authorities must close a Basque plant at Azulo by mid-1995. But they can rescue another at Sestao if

private investors are found for it.

The plan foresees state aid amounting to Ecu2.77bn (\$3.2bn).

German officials say these state subsidies remain "much too high". They also want the Azulo plant closed earlier. "We need capacity cuts now and not in two years," a senior official said.

They further object to the Sestao plant being allowed to survive in the hands of private investors.

"We cannot accept an ailing steelmaker being rescued by an investor which will only take a 51 per cent stake, and which may be partially owned by the state itself," an official added.

Nor would the German government accept a restructuring package it disapproved of in return for subsidies for its Ekostahl plant in east Germany. Bonn argues that Ekostahl is a separate case because its privatisation belongs to the restructuring of eastern Germany as a whole.

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## Danish PM to improve welfare state

By Hilary Barnes in Copenhagen

MR Poul Nyrup Rasmussen, the Danish prime minister, yesterday made a strong commitment to maintain and improve the welfare state in a state-of-the-nation speech at the opening of a new session

of the Folketing (parliament). Mr Rasmussen, the Social Democratic head of a four-party centre-left majority coalition, became prime minister in January this year.

He described unemployment, running at a rate of more than 12 per cent, as a problem which is "a real threat to the

common well-being and the individual's welfare". He promised an action plan to help "the outcasts, the lonely and the mentally handicapped".

A strongly expensive fiscal policy, announced earlier this year, was the government's attempt to get the economy

moving and bring down the jobless total, he said. Mr Rasmussen, who is down in the opinion polls, promised improvements in health and hospital services, improved services for the elderly, better opportunities for early retirement for older workers, more day-care institutions for small

children and a steady expansion of places for post-school job training.

"Can we really afford all the improvements I have named?" he asked. "Yes. We have a surplus on the current balance of payments and low inflation. We have the room for manoeuvre," he said. "An expensive

speech," was the comment by the opposition Liberal party's economic spokesman, Mr Anders Fogh Rasmussen. He accused the government of using promises of more public expenditure to buy voters ahead of the next election, which must be held before the end of 1994.

## Denmark expects to be among elite of EMS

Finance minister Mogens Lykketoft sees the krone as a core hard currency, writes Hilary Barnes

DENMARK expects to be among the core hard-currency countries when new arrangements are made for the European Monetary System, according to Mr Mogens Lykketoft, the finance minister.

"The Danish economy in fundamental respects is strong and we shall have no problem joining the core (ERM) countries. That is our clear intention," Mr Lykketoft, a leading figure in the Social Democrat-led coalition, said in an interview with the Financial Times.

However, he said he does not expect new ERM arrangements to be implemented "for some time" following the forced move to wider 15 per cent bands two months ago.

He said the original January 1 deadline for a return to the previous 2 1/2 per cent fluctuation bands had little

chance of being realised. Mr Lykketoft is presiding over an economy registering a large current account surplus and an inflation rate of just over 1 per cent. However, unemployment is around 12 per cent.

As a result of a shift to fiscal policy expansion this year, the budget deficit has grown to about 6 per cent of gross domestic product.

The Danish krone, which came under severe speculative pressure during the summer monetary crisis, has lately been holding up relatively well on the currency markets.

The krone has appreciated slightly against the European currency unit since the end of July, although it has fallen by about 4 per cent against the D-Mark. After two cuts in the official discount rate, the most recent by 0.5 points to 8.25 per cent on September 27, the financial markets are expect-

ing further gradual reductions in short-term interest rates.

Mr Lykketoft said Denmark's opt out from the Maastricht treaty commitment to economic and monetary union had only limited relevance to the government's monetary policies.

The minister said: "This (the third stage of the move to Ecu) lies a very long way ahead and so the question is without any interest."

The government's fiscal expansion is expected to produce some extra buoyancy in an economy which will show no growth this year and has only grown by about 1 per cent annually since 1990.

The government is planning a DKr12bn (\$1.81bn) increase in spending power, equivalent to 1.2 per cent of GDP, in the 1994 budget, accom-

plished by temporary reductions in personal taxation and increases in budget spending, especially on infrastructure.

Mr Lykketoft does not see any incompatibility between the expansive fiscal policy and an easing of monetary policy and lower interest rates. He said that both the reduction in taxation - a consequence of a big reform of the tax system which will take effect in 1994 - and expenditure increases are temporary.

"There will be no further easing of fiscal policy after 1994," he said. The fiscal expansion will make only a minor dent in the current balance of payments surplus, which will slip from about DKr27bn - 3.5 per cent of GDP - to about DKr23bn in 1994, he said.

The government expects a demand boost to increase the GDP growth rate

to 2.9 per cent in 1994, with real private consumption rising by 4 per cent. Virtually all non-government forecasters consider the government growth forecasts too optimistic. The right-wing opposition parties predict continued stagnation, leading to a new crisis next year caused by a rising budget deficit.

However, Mr Lykketoft, an economist by training, said he considers the forecasts "fully realistic".

The tax concessions alone mean that real disposable household incomes will increase by 4.5 per cent next year.

Mr Lykketoft said that the fact that home-owners can extend mortgages from 20 years to 30 years will give the typical householder extra spending money of several thousand kroner a month next year, so his forecast was not "too optimistic".

## New UN peacekeeping mandate angers Serbs

By Laura Silber in Belgrade

FIGHTING spread across former Yugoslavia yesterday, as Serb leaders accused the new six-month United Nations mandate for its forces in Bosnia, Croatia and Macedonia of destroying any chance of peace. Mr Vladislav Jovanovic,

the Yugoslav foreign minister, said the mandate gave the go-ahead to Zagreb to clamp down on Serb communities in Croatia.

"Singing out Yugoslavia is a roundabout way to enable Croatia to continue undermining the plan and its aggressive behaviour towards the UN pro-

TECTED areas," he told Tanjug, the Belgrade-based news agency.

In contrast, Croatia praised the Security Council decision. In vaguely worded terms, it threatens to link the lifting of sanctions on Serbia with ending the Serbo-Croat conflict in Croatia. Mr Mate Granic, Cro-

atian foreign minister, said: "The republic of Croatia has all reasons to be satisfied with Resolution 671, its general tone and individual provisions."

However, the resolution fell short of Zagreb's demands to give more muscle to the 15,000 peacekeepers posted in Croatia. Mr Franjo Tudjman, the presi-

dent of Croatia, is frustrated with the UN's failure to force Serb rebels to renounce their self-styled state, which covers about one-third of Croatian territory.

Mr Jovanovic later tried to downplay the blow dealt by the terms of the UN mandate as containing "only general refer-

ences to the normalisation of the situation". The UN 17 months ago imposed sanctions on the rump Yugoslav state for the carve-up of Bosnia. International mediators have used the lure of easing sanctions to tempt Serb officials into handing over land seized during the war in Bosnia.

## Irish opposition party leader decides to quit

By Tim Cooney in Dublin

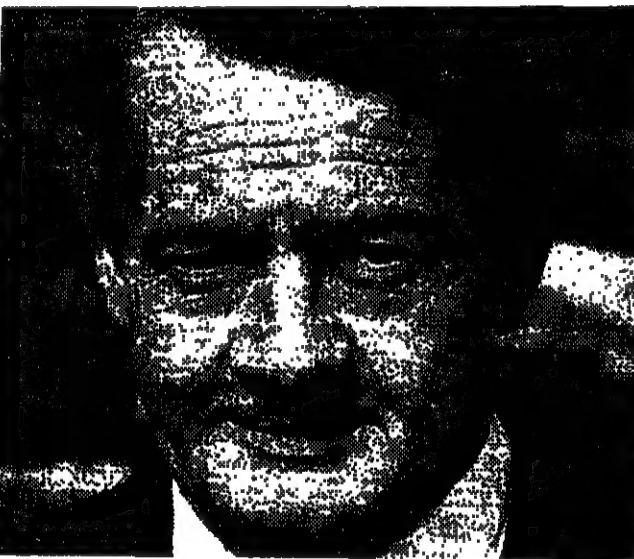
MR Des O'Malley has resigned as leader of the opposition Progressive Democrat party in Ireland, to "make way for new blood". He said he was under no political or personal pressure to do so.

Mr O'Malley, 54, said he would stand for election one more time before quitting politics altogether. He did not say what his long-term plans were.

A long-time opponent of Mr Charles Haughey within Fianna Fail, he split with the party leader in 1984, when Mr Haughey had him expelled for publicly differing with him on Northern Ireland, the contraception issue and internal party democracy.

He founded the Progressive Democrats (PDs) in 1986, presenting it as the party of high standards and open government. The party has since had an influential minority voice holding the balance of power, with six out of 166 Dail seats in the coalition government from 1989 to 1992.

It was Mr O'Malley's decision



O'Malley: his party became an influential minority voice

to withdraw his party's support from Fianna Fail in January 1992 which precipitated Mr Haughey's resignation and formation of a short-lived Fianna Fail-PD coalition under the leadership of Mr Albert Reyn-

olds which ended with elections last year. The PDs emerged with 10 Dail seats and Labour, with whom Fianna Fail formed a new coalition, doubling its representation to 33 seats.

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## NEWS: WORLD TRADE

US industry groups optimistic about multilateral agreement

## Steel producers in sight of pact

By Nancy Dunne  
in Washington

REPRESENTATIVES of steel-producing countries, meeting this week in Geneva, seem finally on the road to agreement on the multilateral steel agreement which has eluded them in almost four years of negotiations.

"The ultimate deal is still at least a month away," said one observer close to the US negotiators. "But that is to be expected. They are changing the way governments intervene in steel production." It is a complex task.

US producers of specialty steel are anxious for a deal. Mr Skip Harquist, one of their lawyers, said: "The elements are there to reach an agreement. However, I'm still sceptical that the Europeans really want a deal."

The optimism by US industry groups stems in part from the seriousness with which Washington is addressing the MSA talks. A flurry of meetings last week made clear that the Clinton administration will not tie the fortunes of the MSA - or indeed the Uruguay Round - to the whims of the big integrated steel companies.

Last Tuesday a delegation of steel-using manufacturers met Mr Mickey Kantor, the US trade representative, and later in the day they went to the White House to see Mr W. Bowdman Cutler of the National Economic Council.

The users stated their opposition to a steel import monitoring programme requested by the big steel companies. Mr

Jon Jenson, for the users' group, said monitoring was unnecessary: steel demand and prices were firm, imports stable, and capacity utilisation high.

He warned that such a scheme would "bully our trading partners into limiting shipments and raising prices of steel needed by US manufacturers to produce world competitive prices". Furthermore, it would cripple the administration's efforts to negotiate an MSA.

The steel users also expressed concern over the request by the big US producers that the administration quickly replace Mrs Anne Brundage, an outgoing International Trade Commissioner, with a steel industry advocate. The users, however, urged

against politicisation of the ITC seat which "would undermine the integrity of US trade law".

Later, top executives from LTV, USX and Bethlehem Steel - prominent among the "Big Steel" producers - met Mr Ron Brown, the US commerce secretary, and Mr Kantor. They were joined, at the administration's invitation, by Mr Kenneth Iverson, chairman of Nucor Corporation, the country's largest minimill producer and an aggressive free trader.

Mr Iverson's presence signalled the administration's determination to listen to viewpoints other than those of the integrated producers, and in the end the officials rejected the monitoring programme and said no decision had yet been

made about Mrs Brundage's successor.

Before the MSA talks broke off in March 1992 the negotiators had whittled the number of permissible steel aids to four: environmental, research and development, plant closing and worker retraining.

US steel companies, however, refused to give up the protection they could glean from the US anti-dumping regime. In fact, they would not even agree to consultations on trade cases before they were filed.

Although Big Steel was perfectly prepared to do without an MSA and seek protection under US trade laws, there were numerous US parties more willing to compromise to get an MSA, including the two largest minimill producers.

## Norway seeks US go-ahead for whaling

By Hugh Carnegie  
in Stockholm

NORWAY said yesterday it would seek US agreement for a limited resumption of commercial whaling, after a decision by President Bill Clinton to delay imposing trade sanctions against Oslo for breaking an international ban on such whaling.

The president said on Monday that Norway's resumption of this year of commercial hunting of Minke whales, defying a 1986 International Whaling Commission moratorium, merited sanctions under US law.

However, Mr Clinton told Congress that US objectives would be best achieved by delaying such a move "until we have exhausted all good-faith efforts to convince Norway to follow agreed conservation measures". Mrs Gro Harlem Brundtland, Norwegian prime minister, responded by saying that Norway would set no commercial quotas for its whalers for next year until after the next meeting of the IWC in Mexico next May.

Even so, officials in Oslo made clear that Norway would try to persuade the US at the IWC meeting to support a resumption of limited commercial whaling catches. "That is definitely our purpose," a Foreign Ministry official said.

Norway decided to defy the IWC moratorium earlier this year after the commission had voted to keep it in place, despite a recommendation by its scientific committee for a limited harvesting of the Minke whale. For the 1993 season, Oslo allowed its whalers a commercial quota of 160 Minke, of which 156 were caught.

Mrs Brundtland and Mr Johan Joergan Holst, foreign minister, have lobbied hard in Washington to avoid sanctions. Their efforts seem to have been helped by the goodwill which Norway has amassed through its mediation which led to the Israeli-Palestinian peace agreement last month.

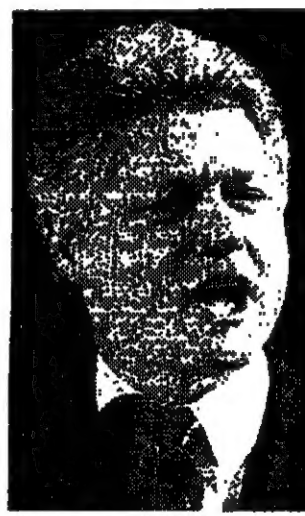
Norway, with annual exports to the US worth about \$2bn (£1.32bn), had feared retaliation against its fish exports, worth some \$70m. Its salmon exports to the US are subject to anti-dumping duties.



Brundtland: no quotas yet



Holst: lobbied hard



Clinton: "good faith"

## Hungary sets up investment promotion agency

By Nicholas Denton  
in Budapest

HUNGARY yesterday set up eastern Europe's first independent investment promotion agency, marking a new maturity of the region's solicitation of international investors.

In 1990 western business interest in the former communist countries of the region was feverish and the new democratic governments could afford to wait for approaches. But recession in eastern and western Europe has inhibited capital flows and sharpened competition for investment.

Hungary has attracted more than \$5.5bn (£3.64bn) of foreign direct investment since 1989, and claims this represents more than half the total put into east Europe.

However, foreign investment in Hungary peaked in 1991 at \$1.7bn and is forecast to slow to \$1.5bn this year.

"The beautiful days are over and we have to struggle with a new and more difficult environment," said Mr Bela Eadar, Hungarian minister for international economic relations.

Yesterday, ITD Hungary, an investment and trade development agency modelled partly on those of Scotland and Ireland, was founded. ITD Hungary said it would take a "targeted and proactive" approach. "We have learned that new and more sophisticated methods are required to attract quality, greenfield investment."

ITD aims to provide a one-stop shop for western investors, who have had to deal directly with overlapping branches of government. The new agency also plans to focus on drawing western investors into the motor components, food processing and tourism sectors.

Hungary puts particular emphasis on motor components because of the country's strong combination of developed skills and wages that are low compared with western levels.

Until the latest initiatives, the main device to promote foreign investment has been the tax incentive. Hungary granted tax holidays for five years to joint ventures in preferred sectors.

But the current law is to expire at year-end. Also, complaints about discrimination against domestic investors and Finance Ministry concerns at the mortgaging of future tax revenue have induced a change in regulations.

The latest draft proposes tax relief for reinvested dividends and for companies in high-technology sectors, but on a largely discretionary basis.

Whatever the outcome, Hungary's investment regime will remain more generous than those in Poland and the Czech Republic, which have phased out almost all tax advantages for foreign investors.

## Attacks stepped up on Taiwan-BaE jet venture

By Daniel Green

OPPOSITION politicians in Taiwan yesterday renewed their attacks on a proposed joint venture with British Aerospace to build Regional Jet aircraft. They accused the UK company of not guaranteeing technology transfer for the development of a new model, the RJX.

The deal is part of BaE's strategy to improve profitability - the RJ series of aircraft, which would be built partly in Taiwan, loses money for the company.

Taiwan's ruling politicians want the deal to go ahead to provide a route into the civil aviation market for the country's ambitious engineering companies. The latest attack will be the backdrop to a new round of talks between BaE and Taiwan next week.

These are aimed at finalising the arrangements for the transfer to Taiwan of technology and development expertise, and outstanding legal issues.

But opposition politicians and bank lenders have attacked the joint venture, called Avro, as politically rather than commercially inspired.

The banks' concerns were largely allayed in August after a series of meetings between Mr John Cahill, BaE's chairman, and Taiwanese officials resulted in an agreed financial structure for the company.

Mr Denny Ko, TAC's president and the man who signed the original agreement with BaE in January, left the company last week. The US-educated Mr Ko was seen as more sympathetic to western companies than the company's president, Mr Earle Ho.

## UK-Peruvian accord marks investment drive

By Stephen Fidler,  
Latin America Editor

PERU and Britain signed this week a mutual investment protection and promotion agreement. The accord was signed in London by the Peruvian foreign minister, Mr Efraim Goldenberg, who is leading a business delegation from Lima to Europe.

The agreement is part of an effort by the government of President Alberto Fujimori to open the country to foreign investment. The aim is also to stimulate foreign interest in a sweeping Peruvian privatisation programme and to persuade foreign companies to look again at the country following gains by the government against terrorists.

The group, which includes legislators, businessmen, government officials

and stock exchange representatives, moves on today to France and then to Germany. Members of the group said there was a growing international interest in the stock exchange - the capitalisation of which has doubled this year - and in direct investment, particularly in mining.

Companies from neighbouring Chile are among those looking at the privatisation of the country's electricity utilities. The proposed privatisations also include state mining assets and the telephone company.

Mr Fujimori said last week the leader of the guerrilla group Sendero Luminoso, Abimael Guzman, had requested a peace accord with the government. However, despite this, bombings by Sendero have over the last week blacked out some areas of the capital.

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## China power station deal for Gibson

By Andrew Baxter

GIBSON GROUP, the Glasgow-based power-plant contractor, has reached preliminary agreement to supply a 120MW power station to Liaoning province in China.

Final negotiations will start in the next few weeks on the contract, which would be worth about \$65m.

The group's main contract-

ing company, Gibson Wells Engineering, has been working on the project for the past three years.

The company is also discussing further contracts in China for power stations ranging from 100MW to 700MW. It said it expected to reach agreement soon with "a substantial US company" which was looking to invest in power projects in China.

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Governor's signature to light  
end of tunnel for Barclays

## Californian tax row near resolution

By George Graham  
in Washington

GOVERNOR Pete Wilson of California today will sign into law a bill to change the state's controversial unitary system of taxation.

The new law, which addresses most of the complaints by foreign companies and governments at the unitary system, sounds the bell for the last round in a decade-old legal fight between California and Barclays Bank of the UK, which has challenged the constitutionality of the state's tax system.

As soon as Mr Wilson has signed the bill, the US solicitor-general is expected to file a brief with the US Supreme Court arguing that the new legislation renders the Barclays complaint moot, and so the court should leave in place a decision by California's supreme court in favour of the state.

Barclays and the UK government will respond with briefs by the end of next week, then the Supreme Court would be expected to announce whether it will hear the case or dismiss it outright on November 1.

At stake is a refund of \$533m (£353m) of tax refunds California would owe Barclays and other foreign-owned companies if it lost the case, as well as an

estimated \$354m the state believes it would be able to assess in taxation if it won.

Besides, the state could have another \$3.1bn at risk if any Supreme Court condemnation of unitary taxation were extended to US-owned companies.

The Clinton administration has been buffeted between its promise to back California in the lawsuit and pressure from US businesses and foreign governments, particularly the UK, to uphold the principles of the international taxation system which are seen to be challenged by unitary taxation.

California's new legislation might diminish the likelihood that the Supreme Court will decide to hear the Barclays case, but the principal factor prompting that legislation — the UK's threat to retaliate against US companies — reinforces the Barclays arguments about the unconstitutionality of unitary taxation.

All in all, lawyers on both sides believe the chances that the Supreme Court will take the case are less than even.

One piquant element in the affair is the understanding that the principal author of the brief for the solicitor-general's office is Mr Kent Jones, who just a year ago wrote the Bush administration's brief against California.

## Campbell TV debates fail to impress voters

Canada's Liberals need to take support from Quebec separatist parties to form a majority government after the election, reports Bernard Simon

MS Kim Campbell, Canada's prime minister, was yesterday struggling to regain her footing after a lacklustre performance in two televised debates before the October 25 general election.

With less than three weeks to go to election day, the question uppermost in commentators' minds is now whether the opposition Liberal party will garner enough votes to form a majority government.

Recent opinion polls show the Tories slipping steadily behind the Liberals, but also show strong support for two regional parties, the Bloc Québécois in Quebec and the populist Reform party, whose main strength is in western Canada.

The televised debates, one in English and the other in French, were widely seen as one of the last opportunities for the Conservatives to make an impression on voters.

But the inexperienced Ms Campbell was thrown on the defensive several times by her

opponents, notably by Mr Lucien Bouchard, leader of the separatist Bloc Québécois, which has siphoned off a large chunk of Conservative support in Quebec.

Quebec newspapers yesterday gave wide prominence to Ms Campbell's remark immediately after Monday night's debate that "only Quebecers will swallow" Mr Bouchard's budget deficit projections.

Callers to radio phone-in shows also appeared unconvinced by Ms Campbell's promise to eliminate the C\$35.5bn (\$17.4bn) budget deficit in five years without raising taxes or cutting costly social-security programmes.

The Bloc Québécois is far ahead of the other two parties in the francophone province, with a chance of winning 40 or more of Quebec's 75 seats in the House of Commons.

The BQ's support comes partly from a hard core of Quebec separatists. But the group's



Lacklustre performance: Chrétien (left) and Campbell during their second election debate on television

promise to put Quebec's interests first has also attracted voters whose primary concerns are high unemployment and slipping living standards.

But Mr Jean Chrétien, the Liberals' leader, used the debates to make a forceful plea to his fellow Quebecers not to heed the BQ's promises. "Canada has enabled the franco-

phone community to survive in North America," Mr Chrétien said. The Liberals' ability to form

a majority government will depend heavily on their success in drawing support away from the BQ in Quebec over the next two weeks.

## Drug sentence agreed

COLOMBIAN prosecutors yesterday announced that they had agreed an 8½-year jail sentence for Mr Fabio Ochoa Vásquez, a leader of the Medellín cocaine cartel, Reuter reports from Bogotá.

He had surrendered to authorities under a plea-bargaining arrangement.

The prosecutor-general's office yesterday said the deal had been agreed on Monday

night after weeks of negotiations with lawyers for Mr Ochoa. He was accused of drug trafficking, illicit enrichment and illegal use of firearms.

Mr Ochoa also agreed to hand over properties and land worth \$2m (£1.32m) to the state and pay the maximum fine stipulated for his crimes, the equivalent of \$10,400.

Prosecutors had asked for a 20-year sentence for Mr Ochoa.

## Elderly cheer Clinton health reforms

By George Graham in Washington

PRESIDENT Bill Clinton won applause yesterday for his healthcare reform plan from one of the US's most potent lobbying groups: the elderly.

Mr Clinton was repeatedly cheered as he promised a meeting of the American Association of Retired Persons in Culver City, California, that his proposed reforms would preserve and make better the existing Medicare system under which the gov-

ernment provides health coverage to the elderly.

"There's one thing I want to say over and over again to the AARP membership of this nation, and that is that our plan maintains the Medicare programme," Mr Clinton said.

The president also won warm applause for two elements of the plan which have been crucial in winning the support of the AARP: the inclusion of the cost of prescription drugs in Medicare coverage, and

an expansion of coverage for long-term care.

The long-term care benefit, which is intended to allow elderly people to receive nursing care at home, would be phased in between the years 1996 and 2000, Mr Clinton said.

"We're not going to be able to do all of this at once. We have to work in the system and make sure we have the funding before we undertake programmes we can't pay for," he cautioned.

## Argentina makes a vice out of a necessity

John Barham on the role of the plain envelope where government officials earn too little to live on

EVERY month Argentina's cabinet office sends out plain envelopes containing the equivalent of \$3,000-\$4,000 in cash to 200-300 senior political officials, in most cases tripling their salaries.

It is one of Argentina's worst kept secrets that most of the income of senior government officials comes in the form of these illegal cash payments and that they evade taxes. It does little to credit the government's claim to be cleaning up the bureaucratic machine.

Few officials can get by on their meagre salaries: President Carlos Menem himself earns the equivalent of only \$2,400 a month. A minister gets \$2,100 and officials at junior ministerial level between \$1,600 and \$1,300. Nearly all top political appointees therefore rely on additional payments known as the *sobresueldo*, the extra salary.

It may be illegal, but the *sobresueldo* long ago became an established part of public life and shows little sign of disappearing.

Although Mr Menem has raised civil servants' pay, he has repeatedly put off raising the salaries of their political masters, thus perpetuating the *sobresueldo* system. He is apparently worried about adverse public reaction to a big "increase" in salaries.

He is probably right: last year the media reacted in fury when economy minister Domingo Cavallo admitted that he received the equivalent of

\$8,000 a month after tax from Fundación Mediterránea, a business-funded economic research foundation he led before entering politics. It also pays smaller amounts to nearly all his aides, most of whom entered government straight from the foundation.

Mr Cavallo said he could not afford to live on less than \$10,000 a month in Buenos Aires. By contrast, private sector wages average \$700 a month — barely enough to survive in one of the world's most expensive cities.

Spurred on by an outraged media, prosecutors charged Mr Cavallo with receiving illegal gifts. But a judge rejected the accusation after Mr Cavallo argued that he and his team were on secondment to the government.

The extra salaries are paid out of the president's \$196.5m a year of "reserved funds", which are disbursed without any outside control. Furthermore, income tax is not levied on the payments.

Some officials are unhappy about the parallel wage structure, not only because *sobresueldos* are illegal, but because they contradict Mr Menem's claim to be promoting clean government.

They are also uncomfortable about earning "less" than their civil service subordinates. Senior civil servants earn \$3,000-\$5,000 a month, although some of them also get *sobresueldos*. Some officials continue to receive their plain envelopes even after leaving government.

The practice is also widespread in Congress, where each party is assigned "reserved funds" which they

are free to spend as they please. Congressional staff are paid only \$1,500 a month, a legislator \$5,000. Here again, *sobresueldos* are paid, tax-free, to aides and staffers.

The government even pays them to journalists. Reporters get cash hand-outs, roughly equivalent to their salaries, from the press offices of the ministries they cover regularly. Mr Cavallo's aides suspect one reason for the generally hostile press coverage was his order to ban these payments in the economy ministry when he took office in 1991.

Companies habitually pay journalists for publishing favourable articles and some reporters even receive large regular retainers. Companies also pay politicians and civil servants. Sometimes they do so openly. In 1991, 73 local and multinational companies

provided \$300,000 to help modernise the civil service by hiring trained professionals.

And some non-cash corporate "contributions" are relatively innocuous. For instance, Mr Martín Redrado, head of the CNV securities watchdog, openly admits that it was the stock exchange that redecored his new offices.

Most people receiving *sobresueldos* consider them more a necessary perk than a bribe. Inevitably, though, the tradition opens the door to more serious forms of corruption. Officials "borrow" luxurious cars or apartments from friendly businessmen. Companies consider it natural to make political contributions to tax-exempt foundations set up by politicians as cash conduits.

This "black money" is an important weapon in every politician's arsenal. It is used to reward close aides, buy journalists and media barons, pay supporters and fund election campaigns.

Although Mr Cavallo's deregulation and privatisation policies have significantly curbed corruption, company executives still say bureaucrats and members of Congress expect inducements to take — or not to take — decisions affecting their companies. For instance, a trade association of multinational companies recently rejected an approach by a congressional official with an "offer" to approve an intellectual property bill stalled in Congress.

Mr Cavallo then claimed that the two judges had tried to use the scandal to damage the government in the approach to congressional elections last Sunday, when the ruling Peronist party achieved considerable gains.

The fracas underlines the fragility of Argentina's legal system.

Mr Máximo Borchini, a leading Buenos Aires lawyer, said yesterday: "There is a crisis of justice in Argentina which we have never seen before. This deterioration is reflected in the Supreme Court."

The Supreme Court has 12 members. Mr Cavallo had tried to use the scandal to damage the government in the approach to congressional elections last Sunday, when the ruling Peronist party achieved considerable gains.

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Mr Máximo Borchini, a leading Buenos Aires lawyer, said yesterday: "There is a crisis of justice in Argentina which we have never seen before. This deterioration is reflected in the Supreme Court."

The Supreme Court has 12 members. Mr Cavallo had tried to use the scandal to damage the government in the approach to congressional elections last Sunday, when the ruling Peronist party achieved considerable gains.

The fracas underlines the fragility of Argentina's legal system.

## Resignation puts spotlight on Mexican media

By Damian Fraser  
in Mexico City

THE limits to Mexico's new democratic reforms have been underlined by the resignation of a leading independent radio commentator, who says he was told not to interview prominent members of the leftist opposition party.

Mr Miguel Ángel Granados Chapa, one of Mexico's best-known political commentators, said the Interior Ministry put pressure on the radio station, Radio Mil, to block his interviews with opposition figures, and implicitly threatened to withdraw one of its radio licences if it refused.

Both the ministry and the radio station deny there was any political pressure to censor Mr Granados Chapa. However, the allegations have fuelled concerns that the government will put pressure on the media to ignore Mr Cuauhtémoc Cárdenas, the candidate of the leftist Party of Democratic Revolution, in the run-up to next August's presidential election.

Opposition leaders in Mexico are only occasionally interviewed on radio, and hardly at

all on pro-government television. While there is a growing number of independent newspapers, many are subsidised by government hand-outs and advertisements that appear as articles, and as such are subject to political interference.

The recently passed political reforms give opposition parties the right to buy television advertisements, and set limits on campaign contributions, but do not address government or media self-censorship.

On September 20 Mr Granados Chapa broadcast an interview with Mr Cárdenas. Immediately afterwards the owners of the radio station asked that subsequent interviews be cleared with them. Mr Granados Chapa said. The radio commentator resigned rather than accede to the request.

Mr Granados Chapa said the owners had been pressured into issuing the instructions by the Interior Ministry.

Mr Patricio González Garrido, interior minister, said no pressure was put on Radio Mil to block interviews with the opposition, and insisted that radio and other media were free to interview anyone.

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## NEWS: UK



John Major at Blackpool: Lady Thatcher's friends denied that her memoirs describe him as "intellectually lightweight"

Thatcher memoirs overshadow first day of party conference

## Fresh cracks seen in Tory unity

By Philip Stephens,  
Political Editor

FRESH CRACKS appeared last night in the Conservative party's effort to underpin Mr John Major's leadership, after the disclosure of fresh criticism of the prime minister by Lady Thatcher, the former premier.

Despite a subsequent damage-limitation exercise, the first day of the party's Blackpool conference was overshadowed by the leak of excerpts from Lady Thatcher's forthcoming memoirs, revealing her less-than-flattering opinion of Mr Major.

The furore surrounding the leak of the material, published in the Daily Mirror newspaper, forced a public statement last night from Lady Thatcher, in which she recalled that she had backed Mr Major for the leadership when she resigned in November 1990.

The Sunday Times, which

has bought the serialisation rights to the memoirs, The Downing Street Years, last night failed in an attempt to get a High Court injunction to prevent the Daily Mirror from publishing further parts of the book.

Mrs Thatcher's statement said she wanted to confirm that she continued to support Mr Major as leader of the party and as prime minister. Her friends flatly denied reports that she had referred in the book to her successor as "intellectually lightweight", "politically naive" or "small-minded".

Beyond those phrases, there was little sensational in the leaked material. But the memoirs are understood to reflect expressed frequently to confidantes - that Mr Major has failed to display firm leadership.

One senior Conservative who has seen a manuscript of the

memoirs described the Mirror story as "exaggerated but broadly accurate".

Lady Thatcher had deliberately delayed the formal serialisation of extracts from her memoirs until next week to avoid accusations that she wanted to upstage Mr Major.

However, the row destabilised attempts by the party leadership to create a public display of unity at what is seen as a critical week in Mr Major's efforts to restore his political authority.

With Lady Thatcher due to arrive in Blackpool later today and appear alongside Mr Major on Thursday, senior ministers maintained a public display of indifference to her alleged criticisms.

Sir Norman Fowler, party chairman, led a chorus of calls from the conference platform for the party to bury the divisions of the past year. But privately there was intense anger

at Lady Thatcher's continued refusal to fully support her successor.

The anxious mood of the conference was reinforced by a fresh warning from Lord Tebbit, a leading Euro-sceptic, that continuing support for Mr Major from the rightwing of the Tory party would depend upon him sticking to an aggressively anti-federalist approach to Europe.

In a speech designed to prevent a renewed outbreak of the party's civil war over Europe, Mr Douglas Hurd, foreign secretary, said the party had the opportunity to unite behind a policy which would defend Britain's identity in Europe.

But the tensions below the surface were underlined by Lord Tebbit's deliberately faint praise for Mr Major and by a separate warning from party's pro-European wing that they would not tolerate concessions to the sceptics.

## Conservatives close to accord on Europe

By Alison Smith  
and David Owen

THE CONSERVATIVES edged towards unity on Europe yesterday, as Mr Douglas Hurd, foreign secretary, spelt out the common ground within the party, and Lord Tebbit, a former Tory chairman, welcomed the government's recent shift towards a more Euro-sceptic position.

Mr Hurd told the conference that the tide of European opinion had turned, and that the EC's future work would be directed towards the agenda put forward by the UK government: a wider, more competitive Community, based on free trade and co-operation.

Speaking after a debate that was curiously tame, given the passions Europe has aroused over the past year, Mr Hurd underlined the importance of winning more Conservative seats in the European elections next June.

Most people, he said, looked to the Conservatives to fight for Britain's interest in Europe.

While paying tribute to the European vision of the 1950s, and expressing understanding that in the aftermath of the two world wars a strong role for the nation states was not seen as inevitable, Mr Hurd was clear that the aim of preventing another western European war did not mean centralised decision-making in Brussels.

"It does not follow that the nation states should wither away, that would be unnatural. History is against it and the peoples of Europe do not want it."

In spite of the outbreak of unity, Lord Tebbit's remarks to a fringe meeting organised by the Thatcherite Conservative Way Forward remained barbed, as he commented that it would have been better if Mr John Major's conversion had occurred earlier.

"How much easier it would have been if Mr Major had worn those sceptic's clothes at Maastricht," he said.

Lord Tebbit also served notice that Conservative candidates in next year's European parliamentary elections could not necessarily count on his support.

## Drive to boost food sales to rest of EC

By Ivor Owen,  
Parliamentary Correspondent

A DRIVE to boost food exports to Britain's European Community partners was announced by Mrs Gillian Shephard, minister of agriculture.

She said leading retailers would be co-operating with the government soon after Christmas to highlight the most effective ways of ensuring that goods were displayed in continental supermarkets.

Mrs Shephard underlined the importance of securing greater export penetration as well as improving domestic market share when joining with rank and file speakers in questioning the need for the 26th deficit in trade in foodstuffs incurred by Britain in 1992.

The Food from Britain organisation had been given a new remit to expand its work on export promotion.

Warning that the UK market should not be taken for granted, she said: "No one has to buy British. The invaders are not just waiting over the channel - they are already there on the supermarket shelves."

Mr Nicholas Soames, food minister, had been assigned the catering sector, and Mr Michael Jack, minister of state, would seek to improve the performance of the horticultural industry. Horticulture accounted for the largest part of the food trade deficit.

Mrs Shephard said Mr Jack had assured her that "anything the Dutch can do we can do better - since half of all Dutch exports are agricultural that is quite a target".

She was unable to dispel fears expressed during the debate that the promised reform of land tenure to provide more tenancies for new entrants to farming might be subject to further delay.

Mrs Shephard admitted that delaying tactics by Tory Euro-sceptics against the Maastricht bill could lead to new landlord and tenant legislation being crowded out of the programme for the parliamentary session due to open later this month. In that event, a new round of consultations, including draft clauses of the proposed bill, would be undertaken with all the interests concerned.

## From São Paulo to Singapore, more people around the world



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## New proposals on fishing limits

By Alison Maitland

FISHERMEN in England and Wales yesterday proposed a package of conservation measures aimed at persuading the government to abandon its controversial limits on the number of days trawlers can spend at sea.

But the measures did not include a radical proposal put forward last week by representatives of Scotland's 8,000 fishermen that the government should temporarily abandon the EC system of quotas on the type and quantity of fish they can catch.

Mr Barrie Deas, secretary of the National Federation of Fishermen's Organisations, which represents 6,000 fishermen in England, Wales, Northern Ireland and the Channel Islands, said the quota system protected UK fisheries against unrestricted access by the huge Spanish and Portuguese fishing fleets.

The government has opted to restrict fishing time at sea from next January as part of

its effort to comply with EC rules by making a 19 per cent reduction in the capacity of the UK fleet by 1996.

In other respects, the NFFO has put forward similar alternative proposals to those of the Scottish fishermen, notably on increasing the size of mesh in fishing nets and introducing compulsory square mesh panels which allow young fish to escape.

The NFFO, which will seek judicial review of the limits on days at sea in the High Court on November 1, called for increases in minimum landing sizes for fish and no-fishing zones to protect young and breeding fish.

Mr Deas said the government should also boost its £25m three-year decommissioning programme.

An extra £17m could be found from savings on administration and enforcement by abandoning the days at sea scheme and by using tax payable by fishermen on compensation awards made when they leave the industry.

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# Extra short-term export insurance available

By David Dodwell,  
World Trade Editor

THE UK government is to provide extra short-term export insurance cover worth £1.4bn for the remainder of 1993 in a move aimed to protect Britain's export drive in fast growing markets, particularly in the Pacific rim.

The move marks an important breakthrough for private sector insurers, which have been warning the government since early this year that they could not cover exporters' needs. That was due in part to the fragile state of the reinsurance market and also to a surge in exports from the UK, following devaluation of sterling last September. Exports to China, for example, were 90 per cent higher in the first half of 1993 than in the first half of last year.

The initiative comes at a valuable time for Mr Richard Needham, Britain's trade minister, who next week leads a large delegation of British business leaders on a high profile visit to China, Hong Kong and Taiwan. Earlier this year, Mr Needham pinpointed China and Indonesia as primary targets for UK exporters.

The UK government was doubtless anxious not to be embarrassed as it was last year to mount an export mission to Thailand just days before revealing that export insurance cover had been exhausted.

Mr Colin Foxall, chief executive of NCM Credit Insurance, the Dutch-controlled company which accounts for 80 per cent of short-term export credit cover in the UK, welcomed the development: "It marks a recognition on the government's part that the reinsurance market has not expanded sufficiently to cover all short-term risk," he said.

He emphasised that the private sector would continue to meet more than 80 per cent of the export insurance needs of UK exporters. The £1.4bn in additional cover will be of

greatest value in "concentrated markets" where high levels of exposure have arisen because of strong export growth. Key markets are Turkey, South Korea, Malaysia, China, Indonesia and Thailand.

When the UK government privatised the short-term export insurance arm of the Export Credits Guarantee Department late in 1991, its stated aim was to withdraw completely from the reinsurance of short-term risks - generally, exports where pay-

ment is due within two years. A crisis emerged early this year, when NCM revealed that at least £1bn of exports were in jeopardy because the private sector did not have the capacity to reinsure the risk. The government moved to answer this shortage in June, when it announced that "top-up" reinsurance would be extended to 1997. The ECGD said yesterday: "It remains government policy to maximise the extent to which reinsurance is provided by the private market."

Trade unionism - "a great British invention" - provides advantages for employers who want to become more competitive, argues the Trades Union Congress in its evidence to the House of Commons employment committee's forthcoming inquiry into the future of organised labour.

The document, which has just been submitted to the committee, argues that collective bargaining has important advantages for companies, which benefit from collective employee representation because it "offers economies of scale and time to the employer by simplifying the process of fixing terms and conditions of employment. Strong collective bargaining systems provide employers with flexibility to meet local needs or market conditions."

## Britain in brief



## Unions 'offer advantages for employers'

The document, which has just been submitted to the committee, argues that collective bargaining has important advantages for companies, which benefit from collective employee representation because it "offers economies of scale and time to the employer by simplifying the process of fixing terms and conditions of employment. Strong collective bargaining systems provide employers with flexibility to meet local needs or market conditions."

Manufacturers Federation said. In the 12 months to July 1993, spending on footwear fell by £188.7m - a 4 per cent drop. The federation said there had been an "across-the-board slump" with retailers selling 19.3m fewer pairs of shoes, boots and slippers. The downturn represented a 7.6 per cent fall in volume sales.

## Poor skills cost UK £10bn

Poor basic skills, particularly literacy, are costing the UK £10.2bn each year, a report by management consultants Ernst & Young has found. Industry could save up to £8.4bn if basic skills were improved. Ernst & Young's estimates are based on a Gallup poll of 400 large companies conducted earlier this year for the Adult Literacy and Basic Skills Unit and grossed up to take account of companies of all sizes.

## Acid rain targets beaten

The government has said the UK is ahead of its international commitments to cut acid rain. Figures on harmful gas emissions showed that last year's output of sulphur dioxide and oxides of nitrogen was below the levels established by the UK plan that implements targets set by the European Community's large combustion plants directive. Total emissions were 2.67m tonnes of sulphur dioxide and 701,645 tonnes of nitrogen oxides. Quotas for the year were 3.25m and 825,000 tonnes respectively.

## Good service not included

Restaurants are coming close to deceiving customers by adding unexpected charges to final bills, says the 1994 Good Food Guide, published by the Consumers' Association.

Some of the most popular restaurants, particularly in London, "are guilty of some shameful tricks, all designed to push up profits without the customer being too aware of it", it says. The guide mentions a restaurant in Soho, London, which has a £1.50 cover charge for olives or bread placed on tables without customers asking for them.

Restaurant customers falsely assume that the price of the main dish provides an indication of what they will pay. "While the recession may have forced proprietors to reduce their headline prices to persuade customers through their doors, some of them load the other costs in the point of virtual deceit. No wonder the public sometimes feels restaurants are combat zones."

## Reserves fall

The overall level of UK official reserves fell by \$118m last month, bringing reserves at the end of the month to \$43,044m, compared with \$43,163m at the end of August. The underlying change, which excludes a number of factors included in the total change, was a rise of \$35m. The dollar value of the existing amount outstanding under the UK ECU-denominated revolving credit facility fell by \$37m as a result of exchange rate changes.

## House prices up

House prices recorded an annual increase last month for the first time since January 1991, according to Halifax. Britain's biggest building society said the average price of a house had risen by 1 per cent to £63,214 during the 12 months to the end of September. That compares with a year-on-year fall of 2.3 per cent in August.

## Footwear sales down sharply

Sales of footwear in Britain have declined sharply in the past year despite signs of an upturn in overall consumer spending, the British Footwear

# BP sells stake in orimulsion company to Venezuela

BRITISH PETROLEUM is to sell its 50 per cent stake in a company which markets orimulsion, a bitumen-based substance which has been labelled by environmentalists as the world's dirtiest fuel, writes Michael Smith.

The disposal of its share in BP Bitor will be welcomed by

the UK coal lobby, which sees orimulsion as a growing competitive threat in the power market and a factor in the rapid contraction of the British mining industry.

The lobby will argue that BP Bitor, to be renamed Bitor Europe, is likely to have less influence in the UK and

Europe once British Petroleum has sold its stake to Petroleos de Venezuela, the state-owned company, which owns the remaining 50 per cent.

Earlier this year the UK government rejected calls for a ban on orimulsion. The coal lobby suffered another blow in August when the Pollution

Inspectorate authorised PowerGen, the power generator, to burn orimulsion at its stations at Ince on Merseyside and Richborough in Kent.

Both stations have been burning the fuel on an experimental basis for three years. The authorisations provided BP Bitor with its most

significant inroad into Europe. BP said the sale, effective from January 31, was aimed at helping it concentrate on its core activities of exploration, production and refining of oil and petrochemical production.

It was this, rather than the controversy surrounding the fuel, which had influenced the

disposal decision, it said. The sale of the stake for an estimated \$5m will have a minimal impact on BP's financial performance.

BP helped the Venezuelans develop the technology for emulsifying heavy oils on which orimulsion is based in the 1980s.

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TRANSMANCHE LINK, the contractors building the Channel tunnel, have resorted to pedal power to transport workers through the underground construction site, writes Tim Burt. In a move designed to minimise delays on the project, the consortium has bought more than 200 mountain bikes (above) so that workers can cycle along the tunnel. TML said the decision had been prompted by concerns that productivity was being hit by congestion on the motorised shuttles which ferry workers underground. The bikes, fitted with 21 gears and specially designed tyres, are available at six locations in the service tunnel running between the two main rail shafts. But before using them, workers must pass a cycling test and carry a "riding licence" while underground. The consortium, which has bought 125 bicycles from manufacturers in Britain and 80 from France, declined to reveal how much it paid for its two-wheeled fleet. The British cycles have been hand-built by Saracen, the Warwick-based manufacturer, and coated in titanium to withstand conditions beneath the seabed.



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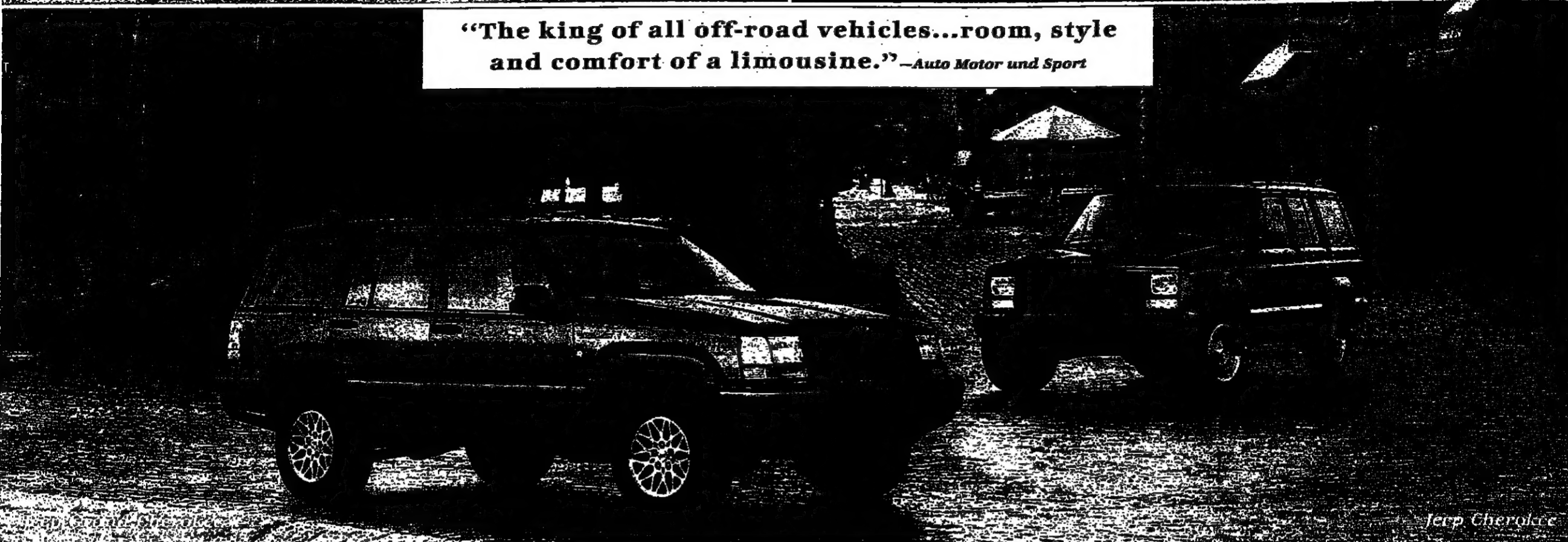
Chrysler Voyager

"Outrageous car...driving the Viper is a great experience."—*Financial Times*



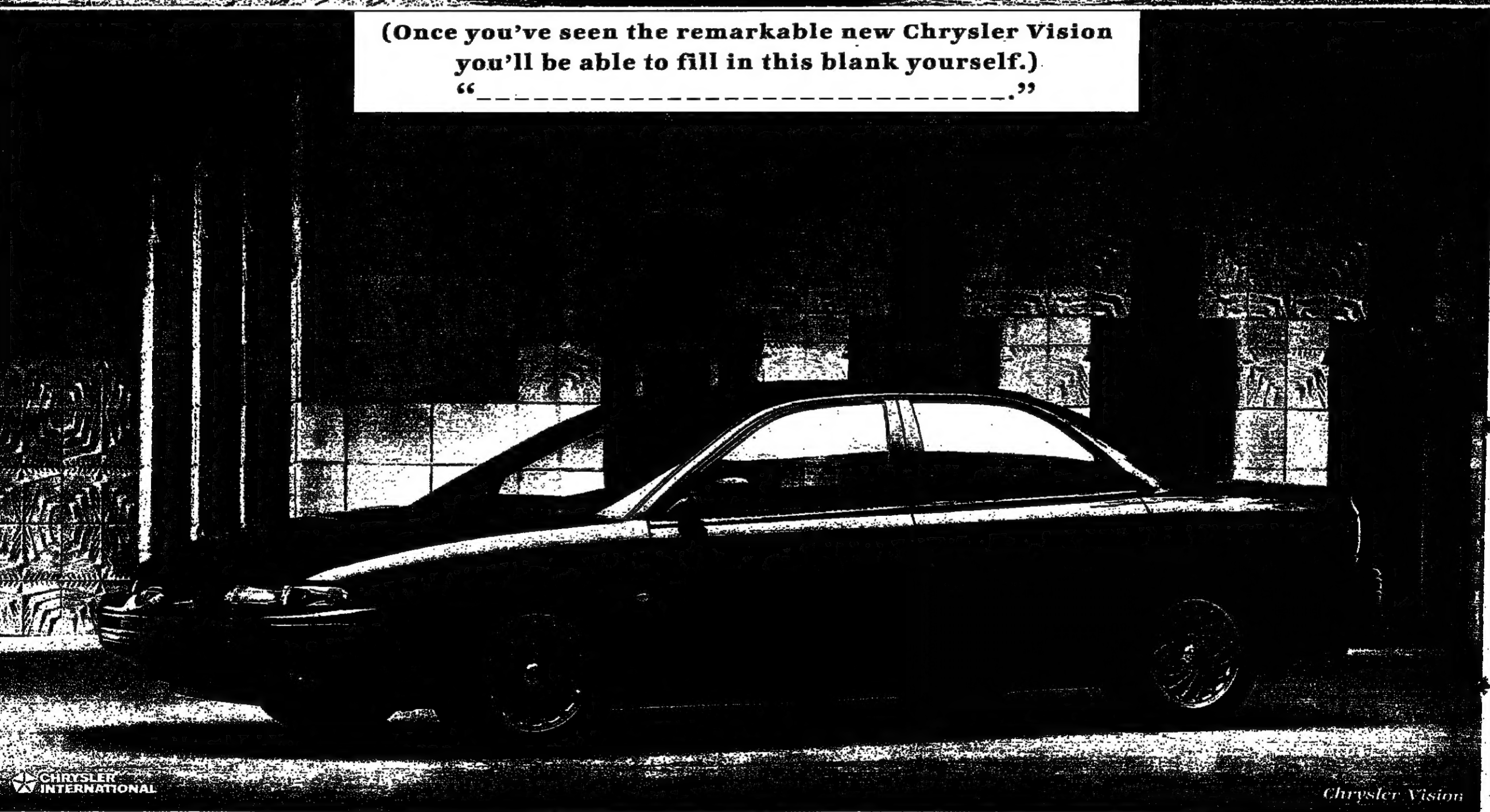
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think that the Vision is the perfect addition to Chrysler's family of distinctive vehicles. And clearly, we're not the only ones who think so.

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## Shorter low-fat lunches

The days when staff ate spam and chips in the canteen and directors had rack of lamb in their own dining room are long gone.

In the modern canteen, directors sit next to cleaners, and they eat a subsidised, healthy lunch washed down with soft drink in a smoke-free environment. And both regard this mid-day meal as being one of the most important perks of the job.

This rosy view of lunching at work emerges from a survey\* of British managers which was carried out jointly by Director magazine and Compass Services, a catering company.

The survey finds that nine out of 10 directors think that it is unimportant for directors and staff to eat separately, in a similar number of companies, segregated dining has been scrapped completely.

In only 8 per cent of British companies is it possible to have an alcoholic tipple over lunch, and in only 5 per cent is smoking unrestricted.

Directors not only pay lip service to their classless canteen, they actually use it. Two-thirds of the directors eat in their canteens frequently, while 85 per cent believe that the long business lunch out at a restaurant is a thing of the past.

However, the clean-living vegetarian lunch is better established in some areas than others.

Blue-collar workers are still offered processed, fatty food, as fewer than half of their companies have any policy on making food in the canteen more healthy.

By contrast, 80 per cent of employers in the service sectors have healthy eating programmes, encouraging employees to eat as many fresh vegetables as they care to.

The vast majority of companies provide subsidised or free meals, and despite the effects of recession, almost none plans to make staff pay more for their meals.

In return, companies felt they were buying better staff morale, higher productivity and shorter lunch-breaks.

**Buffy Railway**  
The Lunchtime Report 1993.  
Compass Services, Tel: 081 741 1541.

Damon Hill may be British motor racing's most famous son. But 27-year-old Paul Stewart, whose father Jackie scored 27 Grand Prix victories in his time, is fast proving to be another chip off the old block.

Young Stewart is no all-conquering driver just yet - he is currently seventh in this year's Formula 3000 championship, the class below Formula One. But what marks him out for special attention is Paul Stewart Racing, the company he founded with his father in 1988.

On first acquaintance it is not an exceptional business. It runs several cars, employs around 45 people at offices and workshops in Milton Keynes, and besides Formula 3000 concentrates on racing in two other "formative" classes, Vauxhall Lotus and Formula Three. Like other motor racing teams its income - in excess of £3.2m this year - is dependent on corporate sponsors.

What distinguishes Paul Stewart Racing in a sector notoriously short of good management talent is the rare commercial flair of its celebrated founder. He is now passing this on to his son. Professional sportsmen often earn a living from their admiring contacts or dining out on past glories - but relatively few develop genuine business careers or can claim to have established and grown a new venture.

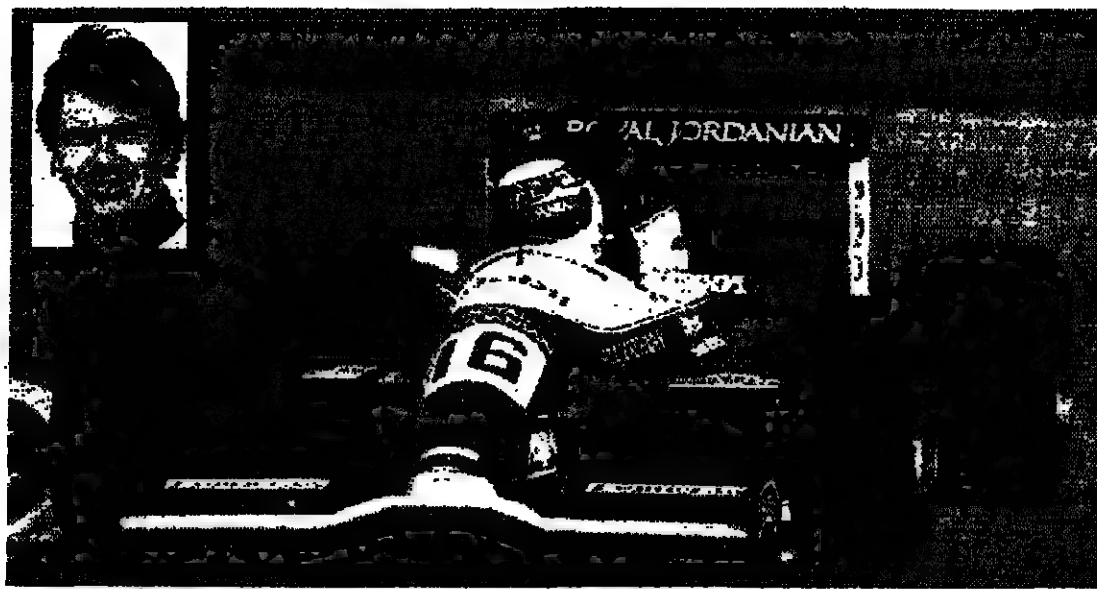
Jackie Stewart is one of them. The three-times world championship winner has brought to his son's company some of the lessons which sport can teach businessmen - sound preparation, good teamwork and the like. But he has also applied his experiences of commercial life gained over 10 years at the wheel of a Formula One car. "As a professional sportsman I had the privilege of working with some of the best business and technical brains in the world," says Stewart senior. "I learnt a lot about marketing, generating enthusiasm and the importance of communication."

Appreciation of risk - a skill which comes in useful in business as well as at speeds of more than 200mph - could also be added to the list. "I survived as a driver by minimising the downside risks, meticulously analysing those that were worth taking and those that weren't," explains Stewart senior.

"In a sports business like ours there's no puffing up a balance sheet to disguise short-term performance. Either you win or you don't, that's what it's about."

At the heart of the company's philosophy is a belief that talent on the track should be matched by professionalism off it. Take Stewart senior's ideas on the increasingly competitive and cut-throat world of corporate sponsorship.

"Sponsorship is almost an obsolete word," he explains, outlining how it now goes well beyond dan-



Paul Stewart: 'The drivers are part of a service industry. They must be ready, willing and able to talk about the investor's business'.

## Same formula, different race

What can managers learn from sportsmen? Jackie Stewart and his son Paul tell Tim Dickson

gling a bit of media exposure in front of a few motor racing enthusiasts. "What it's really about is bringing people together."

With the 31 sponsors, many of them Scottish-based, effectively the "shareholders" - among them Highland Spring, the Marshall Food Group, Bank of Scotland and the Forte hotel group - Stewart works hard to provide a worthwhile "return". Companies get their names on the cars and a chance to invite clients and employees to races. But the most interesting part of the "dividend" - and the one Stewart claims gives the company an edge - is the potential business to be won in the sponsorship group.

Neil Kirby, deputy general manager of Forte's Grosvenor House Hotel in London, says the group is stocking Highland Spring thanks to a meeting arranged by Stewart, while conference and hotel business has come its way from other members of the "network". David Paterson of Bank of Scotland does not expect to win vast numbers of new accounts or deposits, but underlines Stewart's readiness to make introductions and says this may produce a more tangible return to the bank than merely having its name emblazoned on the side of a car.

If Paul Stewart Racing could teach some businesses a trick or two about pleasing "shareholders", the company is no slouch when it comes to staff development. Its "staircase of talent" idea may sound like something out of a management consultancy brochure, yet it neatly reflects the view that drivers and mechanics can be "grown" through experience in all three formulas. With unprecedented Formula Three and Vauxhall Lotus championship wins for the team this season the drivers have excelled on the track. But away from it each one is trained in public speaking, both to represent and entertain sponsors at events.

Today they understand that they are part of a service industry. And service means, being where the sponsors want them, dressed appropriately, ready, willing and able to talk about the investor's business," explains Paul.

Modern management thinking, indeed, trips off young and old tongues alike with Stewart senior particularly obsessed by change. "I've seen the goal posts move so much with the Japanese motor industry," he says before delivering

an image of the British motorcycle industry unlikely to be found in any business school textbook.

"It is not as if they were shot in the back by a high-powered rifle from a great distance, nor stabbed from behind a curtain on a dark night. They died in their own beds, asleep, suffocated by their pillows."

A recent example of their own challenges came when a rival team developed a chassis which threatened their early season lead in the Formula Three championship (which their driver, subsequently won). "We decided to get a different car, which was not only very expensive. With the championship slipping away we also had to learn quickly to engineer it and adapt to it."

Paul Stewart Racing aims to reduce its dependency on sponsorship income through diversification and is trying to exploit the expertise it has so far developed in telemetry - the use of radio waves to transmit readings and measurements of instruments to a recording device. It has no proprietary technology, but its "racing mentality" is attracting the interest of Ford's North American vehicle dynamic engineers.

## Competitiveness is still improving, writes Christopher Lorenz

### Japan keeps up the pressure

If, like many western managers, you are heaving a sigh of relief at all the current cases of recession-hit trauma in Japanese industry, you should look again - and worry.

A few fat multinationals in Tokyo and Osaka may be suffering - with their suppliers hurting, too - but many medium-sized Japanese companies with sizeable export ratios are responding to recession by raising still further their already daunting competitiveness.

They are doing so, not through the sort of quantum-leap "re-engineering" which has become fashionable in the US and Europe, but by maintaining their traditional commitment to "kaizen" or "continuous improvement" on every front: in the "time-to-market" of new products; in speed of manufacture and delivery; in stock turn rates; and in their cost and total productivity levels. This strategy is effective, since most Japanese manufacturers start from a higher level of efficiency and effectiveness than their western rivals.

These are the main messages to emerge from a late summer research trip to Japan by a consultant who is helping Britain's Department of Industry organise a series of high-level autumn "benchmarking brunches" on how manufacturing companies can learn from Japanese best practice. Starting at the end of this month in Newcastle as part of the DIT's Priority Japan campaign, they will also be held in Reading and Birmingham.

Mark Smalley, who heads PA Consulting's Midlands office, as well as acting as one of its chief Japan watchers, studied a sample of eight export-orientated companies of similar size and sector to many UK enterprises. Most employ between 1,000 and 2,000 people. Their industries include pumps, compressors, electronics components and test equipment, cycle parts, and materials handling equipment.

His many conclusions include the following:

- Almost every company spends heavily on product development and production plant.
- Although product life cycles are now being lengthened in some

Japanese industries - a move which has given false comfort to some of their western competitors - the time required to develop new products is being shortened further, as companies postpone their design decisions as late as possible. One of the study companies has cut its already rapid development cycle by 50 per cent over the past three years.

- Almost every company is slashing still further its order-to-delivery cycle for products and services, whether they are standard or customised items. In one instance, this has been cut from seven to two days over a period of several years, in another from four months to one.

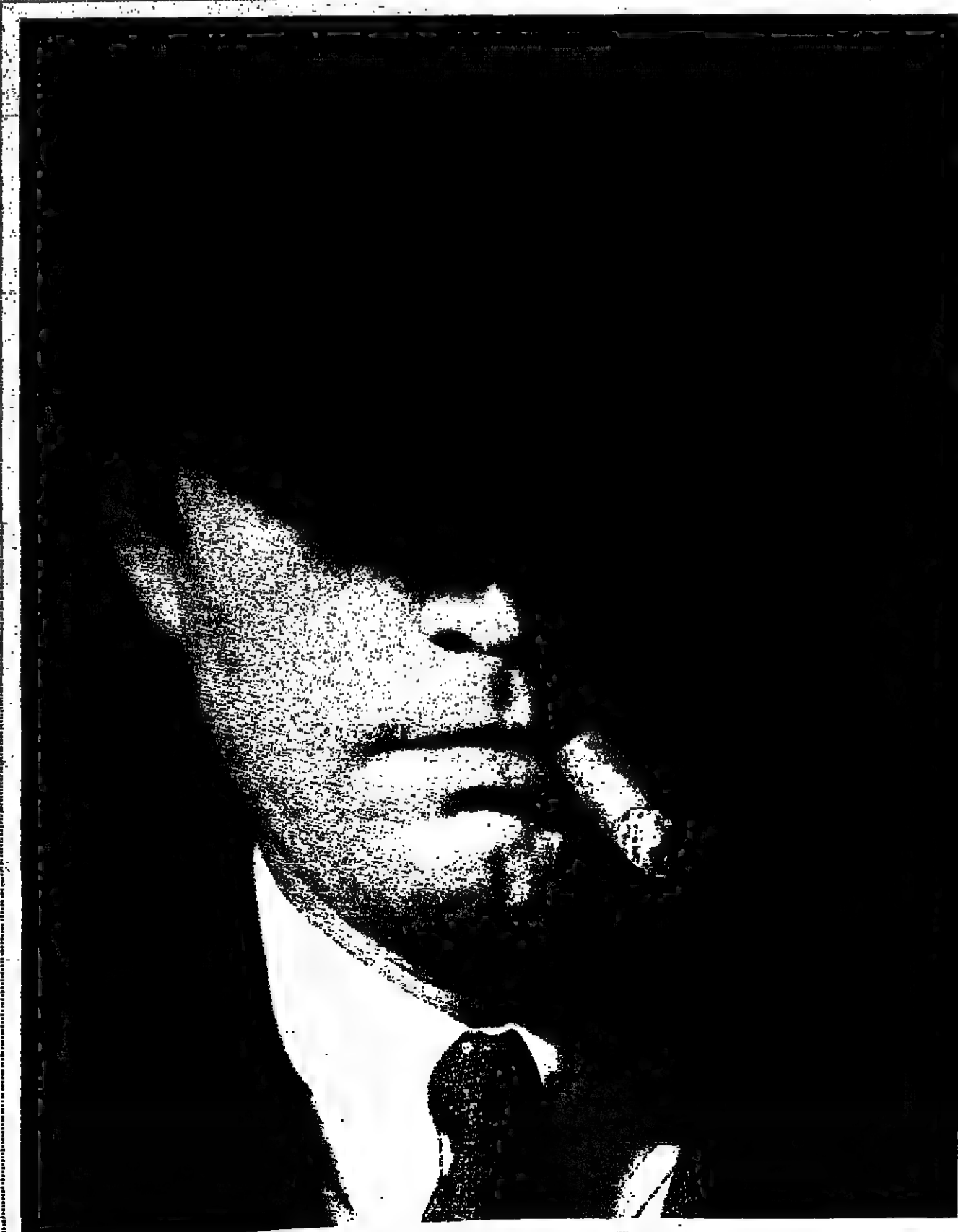
- Logistics and production improvements are rife. Since 1991, one company has raised its annual stock turn from 13 to 14.3 times, while another has gone from 6.25 to 7.8. A third has climbed from eight to 12 times since 1989. One company now makes a sophisticated calculation of the optimum trade-off between stock turns and shorter delivery times.

- Companies are looking for annual increases in total productivity of about 10 per cent. More ambitiously, one has aimed for some time to make its unit cost improvements track the surge in the yen-dollar exchange rate. With two exceptions, the eight companies have raised sales-per-employee by between a fifth and two-thirds over the past four years.

Overall, Smalley says the companies are placing even greater emphasis than before on collaboration between marketing, sales, design, engineering and production. "They don't use phrases such as 'marketing-led'," he comments. "They see everything having to work together."

The half-day "benchmarking brunches", for up to 100 participants at a time, will differ from many DIT initiatives, in that they will be aimed at leading-edge UK companies as well as average performers. In addition to presentations from top industrialists, the events will include workshops led by academics in three areas: closeness to market, production and logistics.

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The Offshore Connection



## BUSINESS AND THE ENVIRONMENT

Companies meet in Paris on Friday hoping to form an environmental pressure group, writes David Lascelles

## Big guns to fire green shells

Business initiatives on the environment are proliferating. The latest – and possibly most ambitious – gets under way this Friday when executives from 50 large companies gather in Paris under the auspices of the World Industry Council for the Environment (WICE).

They hope to forge a common position on a series of green issues, from trade and technology to the role of the financial markets in conveying the environmental message. The resulting position papers will then form the basis of a drive to influence the international environmental debate.

The 50 companies come from 31 countries and include names such as AT&T, Johnson & Johnson, Texaco, Sony, ICI, Volkswagen and Rhône-Poulenc. "It's a good list," says Rodney Chase, the managing director of British Petroleum who is chairman of the group.

WICE was formed by the Paris-based International Chamber of Commerce in the wake of last year's Earth Summit in Rio de Janeiro as a way of addressing issues which had an international, rather than just a national, relevance.

The positions have been prepared by task forces using the technical expertise of the companies involved,

and bear the stamp of their management.

One of the concerns which prompted it was that the global environmental debate launched at Rio would influence national government policies before business had a chance to have its own say. These policies could affect competition, the use of resources and the spread of technology, businessmen thought.

Much of WICE's work will be concerned with striking balances, for example between environmental standards and the flow of trade, or between regulation and cost, and even between population growth and living standards. "We want to ensure that the Rio initiatives are not at the expense of expanding world trade," says Chase.

He cites as an example the recommendations that WICE is proposing to make to governments on the use of incentive regulation to promote environmental standards. Governments should be clear about their objectives, they should estimate the cost and be satisfied that the economy can stand it. They should not try to prescribe the answer, but should set a sensible timetable and then stick to it.

"On all these issues we should have a quality position or we

shouldn't say anything," says Chase, who admits that the danger is that WICE's utterances will be diluted to meet the lowest common denominator of its members. But he adds: "If it wasn't important for BP, we wouldn't be doing it."

Chase is in broad agreement with the items on the global environmental agenda, and sees WICE's role as trying to establish priorities. "They [the items] are set by world concern," he says.

His personal priorities centre on the impact of what he calls "late 20th century consumerism": the problems of short-lived commodities which generate waste which stays around for a long time.

"We are not trying to understand and plan for the consequences of population growth," he says. "There is a trade-off between economic growth and its impact on the environment. But the trade-off has not been calculated or managed."

"We should have a business plan. We should establish priorities on where to spend money and brainpower. The debate on climate change will be a good example." Science has a lot to contribute to ways of curbing pollution, and promoting sustainable development.

Chase believes the business community has "upped its game" on the



Rodney Chase: "We should have a quality position or we shouldn't say anything"

environment. "It's patchy, but moving in the right direction. Environmental agendas are more deep-seated in company plans than many people realise. Unfortunately, this is not as well matched by the image."

"Companies which can combine environmental performance with good business should flourish." But there is also an attitude in the business world which says that environmental regulation is OK, so long as companies can pass the cost on to their customers.

One question WICE will doubtless prompt in business minds is: why yet another action group? We already have the Geneva-based Business Council for Sustainable Development which published the widely read book *Changing Course* describing the environmental experience of its 50 blue-chip company members, and is now working on a number of post-Rio assignments. "I don't know enough to know why these other initiatives have not satisfied our members," comments Chase, cautiously.

## Timber watchdog ready to bark

Peter Knight reports on the launch of the Forest Stewardship Council

The world's first independent body which will help control the trade in forest products, the Forest Stewardship Council (FSC), will be operating within a year.

This emerged at an assembly in Toronto, Canada, at the weekend, following a tortuous two-year process that brought together business, environmental and human rights groups from around the world.

But the effectiveness of the FSC is already in doubt after some influential western environmental pressure groups, including Greenpeace and Friends of the Earth, withdrew their support in protest, when business was granted voting rights and seats on the FSC board. "It is a dangerous and unnecessary compromise to involve industry in the process of determining the environmental standards by which industry is judged. We have withdrawn from the FSC because it has accorded industry such a decision-making role," said Simon Connell, forests campaigner at Friends of the Earth.

The FSC was set up to verify the authenticity of environmental claims made by producers of forest products. Such assurances – that wood products and wood pulp come from sustainable forests – have grown, following widespread concern about the destruction of the world's forests.

The idea behind the FSC was ambitious and its creation has been difficult. Organisers, including the World Wildlife Fund for Nature (WWF), the US-based Woodworkers' Alliance for Rainforest Protection, non-governmental organisations from around the world and business, have had to create a body that reflects the conflicting interests of social, economic and environmental groups from rich and poor countries.

The Toronto meeting divided itself into three factions, representing environmental campaigners, human rights groups and business interests. But even within these groups there were splits. A Brazilian environmental coalition, for example, refused to support the arguments of Greenpeace and

Friends of the Earth.

"We are in uncharted waters, but we have definitely taken an important step forward in verifying certification. We have got a compromise. Industry has a say but it does not have control of the FSC," said Francis Sullivan, forestry officer at WWF UK.

"The writing is on the wall for those among the timber trade who do not pay attention to the social and environmental issues affecting their business," he said. Torbjörn Sjödin, project manager for forest and timber at the Ikea furniture retailer, said the formation of the FSC was good news for his company, its employees and the customers.

"It means a lot to us. The FSC is unique because it has brought together social groups, environmental groups and business," he said.

Mark Eisen, manager of environmental marketing at Home Depot, the US's biggest home improvement chain, said the FSC will help its company's policy of buying wood products from properly managed forests.

"The FSC will legitimise the process of certification. It will clear some of the uncertainties felt by our suppliers. It will give us more credibility in our efforts to get our supplies from sustainable sources," he said. Alan Knight, environmental co-ordinator at B&Q, the UK's biggest DIY chain, was on the FSC's interim board. He hopes the environmental groups will eventually support the council.

"For the first time it has been shown that enlightened environmental organisations and the trade can share the same objectives in achieving socially beneficial and environmentally benign forestry."

But some of the more extreme environmental campaigners do not agree. Rosalind Reeve, a consultant to the German-based Rettenberg Group, said: "At best the FSC initiative is naive, at worst it provides a framework for the timber industry to achieve a much-desired green veneer and defuse pressure to attack the real issues of illegal trade, indigenous peoples' rights and overconsumption."

## Recycling begins at home

RWE, the German energy-based conglomerate, Greenpeace, the environmental pressure group, and paper recyclers in the UK have one thing in common: they want German waste exports to stop.

In the case of RWE, based in Düsseldorf, the motivation is money. About to start building one of the largest waste recycling plants in Europe, the company wants to be sure it will find enough customers. The success of the project is planned on the introduction of EC-wide waste requirements which would destroy the incentive of German companies to dump their waste abroad.

At the moment, recycling in Germany (or paying for landfill space) costs a local company more than transporting and recycling (or dumping) waste material

abroad. Foreign destinations can be just across the border in France, or as far away as Asia, with returning cargo ships charging relatively little for transport. Turning used steel into scrap, for example, costs an estimated DM600 (\$240) per tonne in Germany compared with DM250 in France, according to analysts.

The tendency of German companies to export their waste, often circumventing labelling requirements, has led to a string of scandals. Michael Stock, director of the plant which RWE plans to build, believes the only solution to curb such practices is an EC-wide waste disposal regime.

RWE is betting one will be in place by the end of the century. And it wants to offer the most modern and cost-effective recycling technology to German and other European companies faced with it. "Our aim is to operate the most modern recycling plant in Europe by the time German producers can no longer export their waste," he explains.

The project will regroup three plants dealing with 60,000 tonnes a year of toxic waste (such as fats, oil-contaminated substances and paints), 80,000 tonnes of scrap metal and 40,000 tonnes of biological waste (such as contaminated water from sewage

or agricultural lands). Thyssen Haniel, the diversified trading arm of the Thyssen conglomerate, is co-investor.

As part of the project, RWE also plans to develop the know-how and technologies to rehabilitate contaminated soils.

The plants should be operational by 1996, after a four-year construction period starting next year. Local authorities in Duisburg, which studied the project for three years, are expected to give the final go-ahead in the spring.

While the project will be a considerable boost for local enterprises, which are expected to provide 45 per cent of the

DM600m investment, it will not offer many jobs to offset the rising levels of unemployment in the traditional coal-and-steel Ruhr region. Fully computerised, the entire "centre" will be operated by 180 people at most.

The project also offers an example of how energy groups in Germany are moving towards becoming large, indispensable players in the recycling industry. Smaller recyclers were prompted to complain to the Federal Cartel Office in Berlin early this year about this trend.

But with the success of Germany's strict recycling models at stake and with a dearth of local recycling capacity to make them work, the cartel office has kept silent.

Ariane Genillard

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## Hanna leaves Avis for United Distillers

Ken Hanna, group finance director of Avis Europe since 1989, is joining United Distillers, the Guinness spirits division, as finance director.

Hanna, 40, who previously held senior finance posts with Max Factor and Black & Decker, takes up his appointment on November 15. He will be responsible at UD for financial control, business development and information systems, reporting to Crispin Davis, managing director.

He succeeds Keith Hamill, who recently left UD to become finance director at Forte, the hotels and restaurants group. David Maloney will take over Hanna's post at Avis Europe, and will also join the board of

Cliva Holdings, the Avis parent consortium.

Maloney joined Avis in 1987 after financial and planning positions with Paramount Pictures and Mobil Oil. He has been finance director of Avis UK and, most recently, was based in Madrid for more than two years as managing director of Avis Spain.

Richard Wainwright-Lee, formerly general manager, finance sector industry marketing with CABLE & WIRELESS Business Networks, has been appointed director of corporate finance on the main board; he succeeds Jeff Phillips who is now director of corporate finance at C&W subsidiary Mercury Communications.

Tony Powell, formerly md of Schlumberger Industries, Water and Gas UK, has been appointed md of John Crane Europe, Asia, Africa, part of the TI GROUP; he succeeds David Crofts who has been promoted to executive vice-president of John Crane International.

James Long, formerly group treasury director, has been appointed group corporate finance director of INCHCAPE. Pat Sheedy is promoted to become md of the Northern division of Dutton Forslow, part of LONRHO, following the early retirement of George Carr.

Edward Birnbaum, formerly marketing director of white goods at Dixons, has been appointed marketing director of WICKES Building Supplies.

Steve Davies, formerly group operations manager, has been appointed md of ORIGA, part of Hoerbiger Automation Technology, in succession to Keith Stephenson, who has been appointed chairman and chief executive of Origa Group.

Steven Keeling, formerly md of Oakland Fast Foods, part of GrandMet, has been appointed md of Silcock Express, part of TIBBETT & BRITTEN GROUP.

## In Detention

UK Detention Services, the private prison company that last week attracted Michael Quinlan, 51, former director of the US Federal Bureau of Prisons, to its board, is strengthening its management with a second US appointment.

L.T. (by which he is known) Brown is to become director of operations for UK Detention Services, which manages Blakenhurst Prison, Redditch. After 23 years in the US public prison service, Brown joined Corrections Corporation of America, a US private prison operator, in 1988. CCA is, with John Howden and Sir Robert McAlpine, a partner in UK Detention Services.

David Brooke, who joined UK Detention Services as director of Blakenhurst this year, is to become director of business development. He has a long career in the British public prison system, including serving as governor of Wormwood Scrubs, London, and on HM Inspectorate of Prisons.

The new director of Blakenhurst will be Bernard Higgins, who spent 14 years as a governor in the British public prison service before joining UK Detention Services.

Although there are currently only two privately run prisons, the government is committed to expanding private management to about 10 per cent of the system. Potential private sector operators are strengthening their management teams with experienced recruits from the public sector and overseas.

## Finance moves



Gordon McQueen (above), general manager, international and treasury, at the BANK OF SCOTLAND, has been appointed general manager of UK banking-England, based in London, on the retirement of Bob Wickham. Fraser Campbell, general manager Centrebank, succeeds McQueen and will be succeeded by George Mitchell, divisional general manager and chief executive of treasury services, on March 1, when he will become a member of the management board. Colin Matthews, divisional general manager, UK Banking-England, succeeds Mitchell as from the same date when he too will join the management board.

David Porter has been appointed deputy managing director of NOMURA International, in charge of UK, Scandinavian and Dutch investment banking. The position was created as part of a reorganisation of the investment banking operation. He joins Nomura from the Municipal Insurance Group where he was group treasury director. Michael Williams, formerly md Europe for Barclays global services, has been appointed general manager in charge of the banking division at Nomura Bank International.

Geraldine Ellington has been appointed company secretary of THE LONDON FORBAY COMPANY in place of Marius Savides.

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Television/Patricia Morison

# Tales for fun – and tales for real

Happy the writer who not only sees the TV adaptation of his book puffed on billboards but has his name hoisted into the title. *Arms-lead Maupin's Tales of the City* (Tuesday, C4) has earned golden opinions as a faithful adaptation of a book with the status in Britain of being a minor classic of 20th-century American fiction. Interestingly, Maupin is not nearly such a phenomenon in the US where he is seen principally as a gay writer for a "niche market".

*Tales of the City* originated in 1976 as a daily serial contributed by Maupin to the San Francisco Chronicle – not exactly a heavyweight but a family paper all the same. Running Maupin was a bold editorial decision, and some of the book's pleasure lies in imagining the impact that its light-hearted description of bath-houses, gay bars and cruising supermarkets must have had on the newspaper's more upright readers.

Inevitably, that pliancy is missing now that *Tales of the City* has been translated to the small screen. However, my disappointment with the TV version arises from the great virtue of the book. Maupin's chapters are only a page or so long and written with such clarity that it is impossible not to wolf one of his books down in one gulp. In Richard Kraemer's respectful screenplay, the scenes are correspondingly short and the result is dialogue so sparse that it sags like an old curtain.

*Tales of the City* started off like a somnolent alternative soap. Only into hour three has it picked up speed as the charm of Maupin's characters takes effect. Acting ranges from fair to terrific. There is a problem with DeDe Day, the spoilt little rich girl, who even by California standards hardly seemed fit enough to make sense of her creek bed to win back Beauchamp, the tomcat

husband. Olympia Dukakis and Donald Moffat play a touching autumnal romance as Anna Madrigal and Edgar Halcyon, the advertising executive living on borrowed time. If you have not guessed Mrs Madrigal's secret, it is safe with me.

*Plain Tales from Northern Ireland* (Thursday, BBC 2) is an outstanding documentary series about the people of County Fermanagh, a beautiful region of pastures and lakes which borders the Irish Republic. It is essential viewing for anyone who has ever wondered gloomily what kind of an insane society Northern Ireland must be.

Writer and director Carlo Gebler is an outsider who has chosen to live and work in Ulster. As Gebler explained in a particularly illuminating programme earlier in the series, he chose to move to Enniskillen, Fermanagh's principal town. Imagine telling them in New York that a sane person might actually choose to raise a family in the place sometimes described as the British Indiana.

One objective of the series is simply to show that life in the province is not as bad as outsiders think. "Such an appealing place to raise a family," Gebler calls Northern Ireland. "An unspoiled world... crime is low... children can play in the street".

Nonetheless, the knowledge is inescapable that in this redoubt of old-fashioned family values, families are destroyed and blighted by violence every new day. Gebler went to Enniskillen as a resolutely impartial outsider and yet he admits that as time has gone by, it has become harder not to be affected by the tug of ancient allegiances which lie "like an old magnet in a drawer" beneath the attractive surface of life in the province.

It would be wrong to give the impression that *Plain Tales from Northern Ireland* is just another of those all too familiar television ego-trips for writers. Gebler's real subject is the people of Fermanagh. Without sentiment or prurience, *Plain Tales* evokes the stoicism of Fermanagh people and their matter-of-fact way of dealing with shock and tragedy.

In one programme we meet the affable proprietor of a chain of drapery stores, preparing to move back into premises destroyed by an Easter fire-bomb. A former lieutenant-colonel of the UDR, he never knows when he may not again stare into the eyes of the gunman. Last time, it was at point-blank range as he arranged a shop-window. As is the way of the place, he knew his assassin. In 15 years, three of his staff have been widowed by the Troubles. "It's just part of the game", he comments.

Northern Ireland conforms to what a visitor expects when there are armoured cars in the streets, flags are flying and kerbstones are painted out in sectarian colours. The puzzle comes in the towns and villages which outwardly lack the tribal markings. Outsiders are misled by the signs and symbols, warns Gebler, who intentionally does not point out whether it is Catholic or Protestant who is speaking.

This week's programme about "The Impartial Reporter" was the most subtle so far and could have seemed a trifle dull to anyone who had not watched the rest of the series. A Unionist newspaper, *The Reporter*, has been owned by four generations of the Trimble family of Enniskillen. Everyone in Fermanagh reads it, Catholic and Protestant, and it makes a profit for its proprietors.

The paper prides itself on impartiality but more than that, its editor pursues a policy of stimulating debate. As Gebler points out, in a society where each side is convinced it knows what the other one thinks, even to point out that there are legitimate grounds of debate requires courage. If you have not been watching *Plain Tales*, there is just one part left. Anyone who has will surely agree that this series has made a significant contribution to helping outsiders see the people of Ulster more clearly and sympathetically.

As everyone knows, Hitler was an incorrigible showman. This week's fascinating *Time-watch: The Mother of All Battles* (BBC 2, Wednesday), provided yet another example of Hitler's extraordinary propensity to turn life into theatre. A German general recalled the meeting with Hitler on July 1, 1943, four days before the start of the epic Battle of Kursk in the Ukraine.

It was a conflict months in the preparation which was to claim more casualties than the entire British losses during the second world war. The generals stood in a semi-circle, waiting for their Supreme Commander to discuss the battle plan. Hitler strode in and stared each man in turn full in the eye and then, without a word, strode out. The stunned generals could only think that Hitler must have been reacting to a famous painting of Frederick II, addressing his commanders on the eve of battle. Who said something about hearing the word culture and reaching for a revolver?

Twenty years ago, Martin Jones's recordings of Busoni piano music made a fine impression. Those of us who thought Busoni's "modernism" hugely overrated by an earlier generation were stirred nonetheless by the pianist's sharply musical commitment, and his stringing of pearls. Since then Jones has become an "academic" pianist: 17 years as pianist-in-residence at University College, Cardiff and now a Guildhall professor, recording the "complete" Mendelssohn, Debussy and Percy Grainger and doing the occasional concert.

He gave an occasional concert in the Wigmore Hall on Monday. The programme, appealingly off-beat – early, mostly unfamiliar Debussy and Scriabin, noble but low-profile Mendelssohn and Ravel, a pair of Alun Hoddinott sonatas – attracted the tiniest of audiences. It included, however, a lady with multitudinous plastic bags (but not necessarily a bag-lady), searching

noisily among them for some nameless thing while Jones began the limpid *Andante* of Hoddinott's 10th Sonata – and then, interminably, folding them up again. Jones displayed admirable restraint by simply giving up, remarking that he was trying to "create a quiet atmosphere", and asking was *she THROUGH?*

Shades of the old Wigmore, when audiences were often so sparse that anybody could wander in... but Jones was playing below his best commanding form. In Mendelssohn's *Variations Serieuses* and Ravel's lean *Voies nobles et sentimentales*, his indulgent pedalling left harmonic smudges that would have offended both composers' ears. (Though Chopin called the pedal "the soul of the piano", on all the evidence British ped-

ones of a 90-minute "opera vision" drawn from a famous prose-poem by Rainer Maria Rilke and written for bomb-destroyed Dresden.

My colleague touched on the marriage of hard practicality, questing imagination and highly personal yet approachable musicality that goes to make up the Matthius persona. GTO's account of *Cornet Rilke* bears him out in every particular. On the simplest level this is real opera, not a musicked play or some other kind of music-theatre conception inadequately founded on musical vision.

At every point the music sets the theatrical agenda, intervenes, sums up, carries the impulse forward; there is no question of the text (a fascinating Rilke adaptation by the composer) existing independently. The score, and therefore the drama, take their tone from Matthius's extraordinarily distinctive and beautiful writing for an 11-person chamber orchestra and vocally far-flung (but never over-extended) chorus.

On paper the choice of instruments may seem quirky or modish – horn (in some ways the protagonist of the whole show), flutes, harp, electric guitars, and a big battery of percussion. Not in the theatre. Animated by tingling metal, punctuated by guitar and harp flourishes, and personalised by ruefully

lyrical wind and horn, the scoring lacks the sustaining strength of strings. Intentionally so: as the opera deals with the hallucinatory vitality and disconnectedness of war, the sound embodies the theme.

Alterations of fast and slow-moving stage activity, clothed in a musical language that will alarm no-one comfortable with the later Mahler symphonies or the late-Romantic attitudes to tonality of Britten and Shostakovich, possess a comparably picturesque absence of surface logic. Yet, just as the full span of Matthius's scenes is traceable to a single eight-note tone-row, so the diversity of his war-vision is similarly based on a thematic unity. To the opera's striking hero – played by two Cherubino-like mezzo-sopranos, representing respectively his outer and inner existence – war brings vigorous, courageous life but also sudden, meaningless death.

For all its late-Romantic musical patina this is an intensely modern work. To that modernity the GTO production team – producer Aidan Lang, designer Lee Brotherton, lighting by Davy Cunningham, movement Stuart Hoppa – have responded with enthralling boldness: their staging proves full of kaleidoscopically vivid imagery created by elliptically mobile screens, sud-

den foreshortenings of physicality in chorus and principals and economical bursts of colour.

The flaws, on Monday, were a barrage of stage noise and a shortage of intelligible English words (Bernard Jacobson's translation is used) – but musically there was always sufficient compensation. Conducted by Martin André, the show boasts outstanding instrumental and choral delivery, a crisp concentration in pace, and admirable confidence in the solo voice parts.

In an ideal world Matthius's laconic sensuous combination of female timbres is probably achieved with voices of more naturally sumptuous quality. That said, the accomplishments of Julie Unwin and Beverly Mills (the two mezzo Rilkes) at the head of a cast including Edith Pritchard, Brian Davies, Peter Savidge and David Thomas deserve high praise.

In sum, and as Don Giovanni might say, "Bravo, bravo, archbravo!" to Glyndebourne Touring Opera. And this is the company the Arts Council is threatening with extinction...

Sedler's Wells Theatre, London EC1: final performance on Saturday, then in repertory in Norwich, Plymouth, Manchester, Oxford and Southampton. October 12-November 13

can afford; but that is no peculiar fault. Many Francophile pianists and Liszt exponents love their Bechsteins and in America, their gentle Baldwin cousins too), despite perennial difficulties with keeping their nearby trunks in good order.

Though European Steinways are good all-rounders, many European pianists find American-made Steinways designed for gross, clangorous noise. (When Alicia de Larrocha complained to a local American piano-technician that she could not make soft repeated notes sound, as in Ravel's *Gaspard*, he explained cheerfully that she had to do it like this – stabbing one note repeatedly and rapidly with his thumb: not really a feasible option.) It would have been nice to hear Jones striving harder to light up his piano-sound in detail, and not just relying upon his chunky, virtile grasp of the whole keyboard, whatever its brand-name.

## A pianist, and some pianos

## Concert/David Murray

## Opera/Max Loppert

## ARTS GUIDE

## Dance moves



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Olympia Dukakis as Anna Madrigal in 'Arms-lead Maupin's Tales from the City'

## INTERNATIONAL ARTS GUIDE

**BONN**  
 Oper Tomorrow: Salome, conducted by Dennis Russell Davies and staged by Ken Russell. Sat: Francisco Araza sings the title role of Werther. Sun: Otello with Vladimir Atlantov and Renato Bruson. Mon: Katia Ricciarelli song recital. Repertory also includes Lortzing's *Der Wildschütz* and Valery Panov's production of Prokofiev's ballet *Romeo and Juliet* (0228-773667).

**COLOGNE**  
 Oper Tomorrow: Salome, conducted by Dennis Russell Davies and staged by Ken Russell. Sat: Francisco Araza sings the title role of Werther. Sun: Otello with Vladimir Atlantov and Renato Bruson. Mon: Katia Ricciarelli song recital. Repertory also includes Lortzing's *Der Wildschütz* and Valery Panov's production of Prokofiev's ballet *Romeo and Juliet* (0228-773667).

**COPENHAGEN**  
 Royal Theatre Tonight, next Tues: Drot og Marsk (King and Constable), historical opera by 19th century

**DENMARK**  
 Danish composer Peter Heise. Tomorrow, Fri: Hans Brenaa's production of Coppelius. Sat: Ariadne auf Naxos. Mon: Carmen. Oct 23: first night of new production of Peter Grimes (tel 3314 1002 fax 3312 3692).

**GOTHENBURG**  
 Stora Teatern Tonight, Sat, Sun: Robert North's new ballet *The Russian Boy*, music by Tchaikovsky and Shostakovich. Tomorrow, Fri: Orpheus in the Underworld (031-131300/031-136500).  
 Konserthuset Tomorrow and Fri: Heinz Wallberg conducts Gothenburg Symphony Orchestra in works by Haydn, Berg and Franck, with violin soloist Dan Almgren (031-167000).

**FRANKFURT**  
 Oper Tonight: Sylvain Cambreling conducts first night of Peter Mussbach's new production of *Wozzeck*, marking the start of Cambreling's first season as Frankfurt's opera chief. The cast is led by Dale Duesing and Kristine Cieslinski, and there are further performances on Oct 10, 14, 17, 20, 24, 27 and 31. A William Forsythe ballet programme can be seen on Oct 9, 13 and 15. Così fan tutte and *Il barbiere di Siviglia* are revived later (069-238061).  
 Alte Oper Tomorrow: Ingo Metzmacher conducts Scottish Chamber Orchestra in works by Mozart, Stravinsky and Ives, with piano soloist Richard Good. Fri: piano soloist Richard Good. Sat: Pavel Kogan conducts Moscow State Symphony Orchestra in

**HAMBURG**  
 Staatsoper Tonight, next Tues: Il trovatore with Julia Varady and David Batistoni. Tomorrow, Sat: John Neumeier's choreography of Mahler's Fourth Symphony. Fri: Claus Peter Flor conducts Johannes Schaefer's production of *Entführung*. Sun: Der Rosenkavalier. Oct 16: first night of new production of *Götterdämmerung* (040-351721).

**LEIPZIG**  
 Gewandhaus Tomorrow, Fri: Günter Wand conducts Gewandhaus Orchestra in Bruckner's Fifth Symphony. Sun: Daniel Nazareth conducts MDR Symphony Orchestra in works by Grieg and Mendelssohn, with piano soloist Lars Vogt. Sat: (Kleiner Saal): Aless Lubimov piano recital. Next Tues: Hans-Peter Linde conducts Concertus Musicus Lipsiensis in baroque programme (0341-7132 280).

**LYON**  
 Louis Elie's Offenbach adaptation, *Les Contes d'Hoffmann*, is revived at the Opéra de Lyon on Oct 14

**MUNICH**  
 EUROPAMUSICALE Orchestras from 31 European countries visit Munich this month for a festival aimed at giving a second-picture of Europe's cultural diversity. There are concerts every day, mostly at Gasteig. Tonight in Herkulessaal: Lawrence Foster conducts Monte Carlo Philharmonic Orchestra in works by Louis Abbiate (1866-1933). Poulenc and Dukas, with piano soloist Cristina Ortiz. Tomorrow: Pavel Kogan conducts Moscow State Symphony Orchestra in Tchaikovsky and Prokofiev, with piano soloist Nicolai Petrov. Fri: Andras Ligeti conducts Budapest Symphony Orchestra in Kodaly, Liszt and Bartok. Sat in Prinzregententheater: Emil Tabakov conducts Sofia Philharmonic Orchestra in works by Bulgarian composers. Sun: Daniele Gatti conducts Academy of Santa Cecilia in Rossini, Paganini and Respighi. Mon: Claudio Scimone conducts Gulbenkian Orchestra in works by Portuguese composers. Tues: Aldo Coccauto conducts Spanish National Orchestra in works by Turina, Halffter and Falla. Oct 16: Royal Concertgebouw Orchestra. Oct 24: Gothenburg Symphony. Oct 25: Royal Philharmonic. Oct 28: Vienna Philharmonic (089-4809 8614).  
 BAVARIAN STATE OPERA

**OSLO**  
 Peter Maxwell Davies conducts the Oslo Philharmonic Orchestra on Fri at the Konserthuset in a programme devoted to his own music. This is the opening concert of the Oslo Contemporary Music Festival, which continues over the following eight days at various venues, with contributions from the Philharmonic Chamber Choir.

**STUTTGART**  
 Staatstheater Tonight, Sat, next Tues: Hans Zender's new opera *Don Quixote de la Mancha*. Fri, Mon: Stuttgart Ballet in choreographies by Cranko and MacMillan. Sun: revival of Giancarlo del Monaco's production of Otello, with Ermanno Mauro (0711-221795).

**STOCKHOLM**  
 Konserthuset Tomorrow: Janos Solymos piano recital. Sat afternoon: Niklas Willen conducts Royal Stockholm Philharmonic Orchestra in works by Grieg, Nordheim and Sverre. Opening a week of concerts on a Norwegian theme. Next Tues: Kjell Bækkelund piano recital. Oct 15: Alfred Brendel (tickets 08-102110 information 08-212520).  
 Royal Opera Fri, next Tues: *Boccaccio*. Sat afternoon: Elektra. Mon: choreographies by Christe, Cullberg and Balanchine (tickets 08-248240 information 08-203515).  
 Berwaldhallen Sat: Okko Kamu conducts Swedish Radio Symphony Orchestra in works by Sandberg, Elgar and Nielsen, with cello soloist Susanna Malkki (08-784 1800).

**STRASBOURG**  
 Palais de la Musique Tomorrow, Fri: Theodor Guschlbauer conducts Strasbourg Philharmonic Orchestra in works by Poulenc, Richard Strauss and Debussy, with the Labeque Sisters (8552 1845).

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 Sunday Super Channel: West of Moscow 1830  
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## Edward Mortimer



This weekend, in Vienna, the Council of Europe will hold its first ever summit meeting. The most common reaction to that piece of information is blank incomprehension.

Remarkably few people seem to have any idea what the Council of Europe is. Even among those who know of its existence, many imagine it as yet another talking shop which, while it may once have had a useful role, could be dispensed with now.

They could hardly be more wrong. In the words of Mr Jeremy Greenstock, assistant undersecretary at the UK Foreign Office, it is "the one institution in Europe at the moment which is matching its machinery to its rhetoric".

The Council suffers, of course, from confusion with the EC, and that is understandable. Its headquarters are in Strasbourg, and its parliamentary assembly uses the same chamber as the European Parliament. To make matters worse, the EC has twice-yearly summits under the name of "European Council".

But it was the Council of Europe, not the EC, that drew up the European Convention on Human Rights - a unique document in that it allows individuals to seek redress against their own government in a supranational court. The existence of a commission to investigate such complaints and a court to hear them puts this convention in a quite different category from the Universal Declaration on Human Rights, which is habitually violated by many of the governments that have signed it.

The Council is a club of democracies, and it takes that description very seriously - unlike the Conference on Security and Co-operation in Europe, which in 1990 proclaimed all sorts of high-sounding principles and then opened its arms to a whole host of ex-Soviet and ex-Yugoslav republics, some of which do not even pretend to apply those principles.

The Council has been much choosier. To qualify, you have to have both an executive and a legislature which clearly derive from free and fair, multi-party elections. You must have a free press and -

## Tales of human interest

The Council of Europe is an important defender of minority rights

the most contentious point - you must make a show of respecting minority rights. Above all, you must sign and undertake to ratify rapidly the human rights convention - including, nowadays, its provisions on the right of individual petition and on the compulsory jurisdiction of the court.

Slovakia only scraped in last June, after promising to repeal laws that discriminated against ethnic Hungarians, notably by banning the use of non-Slovak Christian names on official documents. And last week the parliamentary assembly

**The Council is a club of democracies - a description it takes seriously**

bly voted to admit Romania, despite doubts about its human rights record. In both cases, Hungary was persuaded, with some difficulty, that the rights of Hungarian minorities could be better safeguarded by obtaining undertakings from the states concerned, and then monitoring their implementation, than by keeping them out in the cold. (There is a valuable precedent for dealing with backsliders: in 1970, Greece, then under military rule, resigned from the Council, forestalling expulsion by minutes, after being found guilty of torturing political prisoners. It was readmitted in 1974.)

Other former communist states that have gained admission are Hungary itself, Poland, Bulgaria, Lithuania, Slovenia and the Czech Republic. Latvia, Albania, Russia, Ukraine, Croatia, Belarus and

Moldova have applied for membership, but have yet to meet the standards set. Their leaders will have a special meeting with the existing members on Friday morning, before the summit proper gets under way.

Why are governments so keen to get in? The Council has no divisions and no "cohesion" funds. It can guarantee no one's security, and has little to offer economically. But the badge of belonging to the club of European democracies is important to the self-respect of post-communist countries, and to the legitimacy of their governments. Moreover, although there is no formal connection between the Council and the EC, it is unthinkable that the latter would consider an application from any state the former had rejected on human rights grounds.

So the Council has gained in importance since the fall of communism in central and eastern Europe. It is playing a significant role in bringing the two halves of Europe together again - a role the summit is intended to solemnise.

It will also discuss at least two areas where the Council's machinery badly needs improvement. On the table will be proposals to streamline the human rights procedure, so that it no longer takes five or six years for the average case to reach a conclusion; and a draft additional protocol to the human rights convention, dealing specifically with the rights of national minorities.

Unhappily, on both issues the UK government (which will be represented by Lord Mackay, the Lord Chancellor - Mr John Major being otherwise engaged at his party's annual conference) is dragging its feet. It wants to keep a two-tier structure for the court of human rights, with provision for appeals - although the court is already effectively an appeal court, addressed only when domestic legal remedies are exhausted - and it objects to any justiciable protection of national minorities on the grounds that these are too difficult to define and (according to Mr Greenstock) more than 300 linguistic groups within the UK might qualify.

Given the gravity of ethnic conflicts, the fragility of new democracies, and the need for legal remedies as an alternative to violence, these objections seem rather frivolous. Is Britain determined to fiddle while eastern Europe burns?

Five years after adopting a new constitution, Brazil's congress today sits down to discuss important changes to a document now blamed for some of the country's most serious problems. If adopted, the changes could help stabilise the country's economy. If not, the government's attempts to tackle inflation of almost 2,000 per cent a year are unlikely to succeed.

Many of the ideals behind the 1988 document were admirable, but have proved unrealistic for a developing country such as Brazil. The constitution was designed to reverse a process of centralisation imposed during 20 years of military rule, and restore individual rights. Instead, it reflected the utopian dreams of its drafters and now looks awkwardly socialist and nationalist in character.

To entrench workers' rights, the constitution imposed a country-wide minimum wage. ruled that public employees could only be sacked through the courts, and forced through a retirement system based on length of service, which let female teachers retire after only 25 years' work.

Five years later, the minimum wage is driving employers in the poorer, northern half of the country to hire and fire through the informal economy, outside the government's tax net. The public sector salary bill has doubled to 11 per cent of the government's crawling budget, and the social security system is nearly bankrupt because more people will soon be receiving benefits and pensions than are contributing.

Mr Mailson de Nobrega, finance minister when the constitution was approved, says the government was powerless to avert these problems because it lacked support in congress. "We could only cry, and pray," he says.

Brazil finally has the chance to address its constitutional weaknesses over the next few months. Except for clauses that guarantee the basic federal structure and individual rights, every aspect of the constitution is open for discussion. Amendments will be passed by simple majority among the combined members of Brazil's congress, the senate and house of deputies.

The most important area for change is the relationship between the federal government, the states and municipalities. The constitution, in a bid to decentralise power and spread wealth to the poorer regions, forced the federal gov-

## Brazil's constitution has slowed economic growth, says Angus Foster. Reform is in sight

# Fresh feather in their caps



ernment to transfer more resources to states and municipalities. For example, the federal government's share of total tax revenues fell 10 percentage points to 33 per cent in 1988 as a result of the changes. But there was no corresponding decrease in the federal government's responsibilities, and it remained burdened with spending commitments in areas such as schools, health, and public services.

Transfers to states and municipalities and wage bills accounted for 70 per cent of the federal government's revenues last year, while a further 17 per cent went in interest costs on its debt. As a result, the government could only fund its commitments by borrowing at high, short-term interest rates and printing money, both of which are highly inflationary.

The constitution also made compulsory the earmarking of certain expenditures. For example, 18 per cent of total tax revenues has to be spent on education. These rules make government efforts to cut its budget deficit difficult and will have to be relaxed for the revision to be successful.

Equally, observers note, resources should be better related to responsibilities. This means the federal government should be allowed to claw back some transfers, or the states and municipalities should assume more responsibilities.

"We have to get a fair sharing of revenues and expenditures to restore feasibility to the federal government and tackle inflation," according to Mr Nobrega.

Persuading congress of the need for fiscal reform will be tricky, especially since the largest political party, the Party of the Brazilian Democratic Movement, is suspicious of the intentions of Mr Fernando Henrique Cardoso, finance minister. It fears that he is planning a "shock" economic plan, the fifth since 1986, which could bolster his chances of running for president next year.

The biggest obstacle to constitutional reform will be the

states, which would suffer through either smaller transfers or more spending commitments. For this reason, the government is likely to call for a political consensus to make the sacrifices necessary to solve the federal budget deficit.

"Without a political pact on how to distribute resources, you won't get the ball rolling. You won't do much by simply changing the rules of the constitution," according to one minister.

The chances of reaching such a pact are mixed. There is widespread support for the revision process in congress but it is opposed, sometimes violently, by a coalition of left-wing and church groups which fears workers' rights are at stake. Although this group only involves about 25 per cent of congress, it can delay progress and has threatened to challenge the revision

through the courts.

Perhaps more important, the coalition government of President Itamar Franco is weak and seems unlikely to be able to generate enough support within congress for the more unpopular measures that are needed, including thorough fiscal reform. With only a year before presidential and congressional elections, there is a danger some members of congress will place their re-election interests ahead of those of the government's budget.

Mr Roberto Campos, federal deputy for Rio de Janeiro and a leading critic of the constitution's weaknesses, is cautious about what the revision can accomplish. "It can't worsen the constitution, and that's the only cause for optimism," he says.

Areas that could see important change, according to Mr Campos and others, include foreign access to the economy. The constitution discriminated

against foreign investment in fields such as mining and transport, and guaranteed state monopolies in petroleum and telecommunications. These are today hindering new investment because of the government's lack of resources.

Following vocal lobbying from organisations such as Fiesp, the Federation of São Paulo Industries, it seems likely the discrimination clause will be dropped and foreign-controlled companies will be allowed once more to exploit Brazil's mineral reserves. It is also possible that Telebrás, the monopoly telecommunications company, will slowly be forced to face private sector competition. Less likely to be questioned is the monopoly over petroleum exploration and refinery enjoyed by Petrobrás. A newspaper poll of congress members at the weekend showed them divided over the Petrobrás issue, mainly for nationalist reasons, and the government appears equally split.

There could also be much-needed reform of the retirement system. Because of generous provisions in the constitution, and special treatment for groups like teachers, there are now some 14.5m Brazilians receiving state retirement benefits and pensions, at a cost of about US\$6bn a year. But contributions to the system are too low, and the shortfall has been met with money meant to pay other types of benefit.

The government wants to delay the retirement age, which would be the same for men and women, and privatise some services. However, opposition will be formidable, both inside and outside congress, from groups who see Brazil's retirement system as one of the few successes for workers in recent years.

Progress in these areas will be difficult because of the government's political problems and the unfortunate timing of the revision, one year ahead of elections. Brazil should emerge with an improved constitution, but this is likely to remain far from ideal.

As an indication of the difficulties, congress seems split on the constitution's most notorious ruling, that real interest rates should not exceed 12 per cent a year. The clause is widely ignored, but its removal would have important symbolic effect. However, the poll of congress members showed a small majority, 46 per cent to 42 per cent, in favour of keeping the rule in place - probably reflecting popular mistrust of the banks.

## LETTERS TO THE EDITOR

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## Monetary union in UK no triumph

From Prof D R Myddelton

Sir, Mr John Smeerey (Letters, October 4) says: "There has been a British monetary union in the UK for years. No one challenges or questions that. Its advantages are so obvious that it is taken for granted."

I notice that Mr Smeerey writes from Belgium. He may not be aware that the pound sterling has lost about 85 per cent of its domestic purchasing power in the last 25 years. This debasement of the currency may have been deliberate government policy. Or perhaps the incompetence of the authorities has frustrated their genuine attempts to maintain the value of sterling. Or maybe it was all just bad luck.

Whatever the reason, the average annual decline in purchasing power over the last quarter-century of more than 8 per cent a year has caused very serious problems to those on fixed incomes, to the foreign exchanges, to the tax system, and not least to commercial accounting. In each case political interference has exacerbated the problems caused by the government's monetary monopoly.

In short, I can assure Mr Smeerey that the British monetary union of which he is so enamoured has by no means been an unmitigated triumph. D R Myddelton, professor of finance and accounting, Cranfield School of Management, Bedford MK43 0AL

## Instant judge of value

From Dr David Carter

Sir, I was surprised to learn from your article on the coffee price war ("Fight over a hill of beans", October 1) that expensive adverts for Nescafé Gold Blend cost as much or more per jar than the coffee beans. However, my colleague's reaction to this news was instant: "That seems fair enough. The adverts are better than the coffee."

David Carter, 7 Abbey Road, Cambridge CB5 8HH

## Case for ITV rules change 'flawed'

From Mr Louis Sherwood

Sir, Central Television's chairman, Leslie Hill, says he thinks those pressing for changes to the ITV ownership rules have won the commercial argument (UK Company News, September 30). Not so. The fact is that the amazing array of ever-changing "commercial" arguments put forward by those pushing for change has been found to be hopelessly flawed. Their logic has been questioned by the City, politicians from all parties, the regulator in the shape of the Independent Television Commission, and many others.

Mr Hill refers to the "commercial logic" of these arguments. They are anything but

logical. Try this one for size: "Only by joining together can ITV defend itself from foreign takeover." Yet, allowing ITV to group into two or three companies would actually make it easier for foreign predators to take over ITV. Where's the logic in that one?

We have also been told of the "commercial logic" of the imaginary £100m savings through takeover and of the four-companies-could-run-ITV-better-than-15 routine. And, finally, there is the cry that ITV will go broke in the face of competition from satellite, in flat contradiction to the relatively optimistic tone of recent reports from the boards of individual licensees.

There is now a clear majority of ITV companies rejecting ownership rule changes. Each company has a board of directors responsible to its shareholders, and we at HTV certainly do not accept that the commercial argument has been won. Quite the opposite. Despite the fact that the burden of proof should fall on those who seek to change the existing regulations, the arguments in favour of change are weak and superficial - but potentially dangerous in their consequences.

Louis Sherwood, chairman, HTV Group, Culverhouse Cross, Cardiff CF5 6XJ

## Goode proposal unworkable

From Mr David Parsons

Sir, There is a fundamental flaw in the reasoning behind the Goode Committee's proposed minimum solvency requirement for occupational pension schemes ("Big pensions reforms urged", October 1). Owing to the different investment profiles needed for ongoing pension schemes and for transfer value calculations, generally equities and gilts respectively, it is obvious that in the long term the proposed minimum funding requirement will nearly always exceed the projected accrued liability on a prudently assessed basis. This is simply due to the lower expected level of returns on gilts. This goes against what appears to be common sense, but it is a fact of life.

The result of having to maintain such a solvency standard is likely to be a need for less volatile and lower yielding investments than are currently used, thus increasing the

financial inefficiency of pension provision in this way. In fact, final salary pension schemes could become as inefficient and expensive as money purchase schemes.

A further problem is that, if trustees wished to continue to have an efficient investment policy, the required margin in the funding target to ensure that the solvency requirement causes few difficulties would lead to an excessive level of funding over the surplus regulations.

Let us hope that this is one area where common sense will prevail.

As I identified in my presentations at the Institute and Faculty of Actuaries' convention in Harrogate last month, a rigorous minimum funding standard such as is proposed by the Goode Committee would be unworkable in practice. David Parsons, 19 Eynella Road, Dulwich, London SE22 8XF

## Investment risks and rewards

From Mr Peter W Stanyer

Sir, The Risk and Reward column of October 4 ("Setback for active quantitative fund management sector") suggests that quantitative investment management techniques give rise to new problems for performance measurement of investment portfolios.

In fact, there is little reason for doubting that greater accuracy in performance measure-

ment should be a normal by-product of quantitative investment approaches.

To suggest otherwise really is rather controversial.

Peter W Stanyer, chairman, NAPF Pension Fund Performance Code Monitoring Group, CP23 Euston House, 24 Eversholt Street, London NW1 1DZ

## Shop front needed for design

From Mr Peter York

Sir, Your report on the break-up of the Design Council ("Design Council break-up decided by government", September 24) and Christopher Lorenz's accompanying article ("The Design Council on a crash diet") confirm that government is anxious to maintain a design consultancy and an educational role. However, there is no mention of salvaging the considerable and largely self-financing promotional activity the council used to undertake on behalf of British manufacturers in the Design Centre and overseas.

The trade and industry minister correctly suggests that "design as a subject needs to be moved into the mainstream". Nothing can be more "mainstream" than getting British design into the marketplace. This more than anything determines whether designs are commercially relevant and experience of market factors an essential design ingredient. There is little point in indulging our appetite for creating innovation while neglecting to exploit inventive achievements. We need trade and industry and therefore to rescue the Design Centre shop front and not just the back room of design consultancy.

Peter York, 64 Dry Hill Park Road, Tonbridge, Kent TN10 3BX

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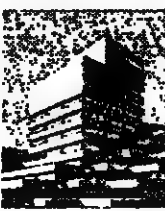
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## FINANCIAL TIMES

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Wednesday October 6 1993

## Cultural imperialism

THE IDEA of Catherine Deneuve engaging in hand-to-hand combat with The Terminator on the world's cinema screens may seem far-fetched, even by Hollywood standards. However, it is a fitting metaphor for a source of conflict which is increasingly exercising US and European Community negotiators as they seek to clear the remaining obstacles to a world trade agreement.

At issue are plans to liberalise international trade in audio-visual services, chiefly films and television programmes. Though promoted largely by the US, such an agreement is also favoured by Sir Leon Brittan, the EC trade commissioner, who wants the Uruguay Round to cover as many services as possible.

However, negotiations have hit a stumbling block in the form of French demands - which have won support in some other parts of the EC - that audio-visual services be exempted from the round. Protesting that liberalisation would sweep away Europe's last defences against a flood tide of American mass-market entertainment, France argues that culture is too important to be abandoned to the free market.

It would be absurd if the dispute were allowed seriously to threaten a world trade deal. Not only are the economic gains and losses at stake relatively minor; the central issues in the debate have been obscured by the exaggerated rhetoric and claims of the protagonists. As a consequence, economic and cultural principles have become unnecessarily confused.

## Cultural identity

France's case deserves sympathy, up to a point. It is not the only country concerned with maintaining its national cultural identity in the face of an international mass-media barrage. It also has an understandable interest in seeking to keep alive the only sizeable film production industry left in Europe. That this has only been possible thanks to special levies and subsidies should not be a matter of great concern. After all, other performing arts, such as music and theatre, are subsidised everywhere in the world.

It may be objected that films are different because they are traded internationally. However, it is hard to argue that state support

seriously distorts competition in a business where financial viability is determined far more by audience size than by production costs. In pressing for an agreement to curb subsidies, the US is tilting at windmills.

A far greater obstacle to free trade is the EC's four-year-old restriction on the proportion of programming from outside the Community which may be broadcast on national television networks. Though technically non-binding, these are widely observed. France has gone further, legislating even stiffer restrictions on domestic broadcasters. That is the target on which the US should focus its attack.

## Defeatist argument

Defenders of European quotas say they are needed to prevent the market being swamped with cheap US programmes, the costs of which have already been covered by sales to their large home market. That is a defeatist argument which ignores the fact that US programme makers owe much of their success to effective marketing and distribution in the EC, which local rivals have failed to match.

The principle of applying a local content test to films and television programmes is, in any case, a logical one. What is it supposed to measure in an industry where capital, talent and production resources flow freely across frontiers and are drawn from an increasingly wide range of international sources? Should the output of the MCA studios, located in Hollywood but owned by Matsushita, count as American or Japanese?

But the strongest argument against quotas is that they are a form of censorship. That is not only objectionable in itself. It amounts to self-delusion by governments at a time when public service broadcasting channels face growing competition from newer media such as cable, satellite and video systems.

How these media should best be regulated is a legitimate policy concern, while lies outside the scope of the Uruguay Round. For the moment, the priority for the US and the EC should be to sweep away unnecessary and economically damaging impediments to audio-visual trade.

## Crime and punishment

LAW AND order is one of the themes the Conservative party has chosen to highlight at this year's annual conference in Blackpool. Traditionally, the electorate has seen the Conservatives as the party which is toughest on crime and criminals. But Mr Tony Blair, Labour's home affairs spokesman, has been skilfully exploiting the government's failure to halt the rise in crime. The prime minister is keen to win back the initiative.

Much, therefore, is expected of Mr Michael Howard, the home secretary, who will reply to the conference debate on law and order later today. The record he must defend is not impressive. Since 1979 the number of crimes reported has doubled while the clear-up rate, the proportion of crimes solved, has fallen from 41 per cent to 26 per cent. Confidence in the criminal justice system is low according to the opinion polls. Yet the UK continues to send a higher proportion of the population to prison than almost any other country in the Council of Europe.

The mood among constituency representatives is likely to be in favour of stronger measures to fight crime. Mr Howard may be tempted - like some of his predecessors - to announce high-profile initiatives that appear to address current concerns. Juvenile offenders who are out of parental control can expect harsh words. So can persistent offenders who are under-repeated by police cautions when they are caught.

## Overburdened courts

But the home secretary would be wise to recall the fate of earlier nostrums such as the Dangerous Dogs Act and the Aggravated Vehicle Taking Act. The former has added greatly to the burden of the courts, while the latter has done little to stop joy-riding or the death and injury associated with it. The failure of such well-publicised measures further erodes public confidence in the ability of the system to curb crime. It would be much better for Mr Howard to address his blurring in-tray which is full of well-considered plans for reforming the system.

At the top of the pile is the report from Sir Patrick Sheehy on police pay and conditions. This contains a plethora of suggestions

for rooting out restrictive practices in the police service and improving its performance. The report has produced a ferocious campaign of resistance among the police staff associations, underlining the close relationship the Conservative government has enjoyed with the police since 1979. Ensuring that its main thrust is achieved without forfeiting police goodwill will require all Mr Howard's skill and finesse.

## Prison service

Also needing care and attention is the government's programme for modernising the prison service. The creation of a competitive private sector in prison management offers the prospect of improvements in the prison regime and lower costs for the exchequer. But a sudden surge in prison numbers could lead to overcrowding which would undermine both objectives. The cost of a conference promise to send more convicted criminals to prison and to make their life harsher could be expensive indeed.

Finally, Mr Howard must make his mind up on the recommendations of the Royal Commission on Criminal Justice, where he faces apparently contradictory pressures. On the one hand, he needs to re-establish confidence in a system damaged by a series of miscarriages of justice. That suggests steps that might make it harder for convictions to be obtained. On the other hand, he must deal with concern over the failure of the system to punish those who are palpably guilty. That suggests making convictions easier to obtain.

In practice, the chances of conviction are best improved by making miscarriages less likely to happen. Juries that have no confidence in the fairness of the criminal justice system will be reluctant to convict. The flow of information upon which crime solving depends also relies on improving the relationship between the police and the public.

Low-key measures to achieve these aims may not win conference acclaim, but they offer the best chance of making an impact on crime levels by the next election. Restoring the effectiveness of the criminal justice system requires a long-term strategy rather than quick fixes.

Since Philip Morris, the US tobacco company, stunned Wall Street six months ago by slashing the price of Marlboro cigarettes in the face of sliding sales, manufacturers of other consumer products, from chocolate to toothpaste, have anxiously protested that such a catastrophe could not happen to their brands.

Yet the humbling of Marlboro increasingly looks like one, particularly dramatic, symptom of a wider malaise afflicting consumer goods industries. On both sides of the Atlantic, many branded products continue to lose share to retailers' cheaper private-label lines. With prices under pressure, manufacturers everywhere are relying heavily on cost-cutting to bolster profit margins.

Recession, the growth of more powerful retailers and "value-conscious" consumer attitudes are often held responsible. However, the search for culprits has recently found another target - the marketing skills which most consumer products manufacturers have long considered the bedrock of their business.

Even the industry's harshest critics agree brand leaders such as Coca-Cola, Gillette and Kellogg, and some smaller players, such as Britain's Cadbury-Schweppes and Ferrero of Italy, remain models of excellence. But in other companies, the austere climate of the 1990s is exposing underlying weaknesses which were masked by buoyant consumer spending and steadily rising profits in the 1980s.

Professor John Quelch of Harvard Business School, a marketing expert and adviser to companies including Mars, Nestlé and Procter & Gamble, blames complacency. "Consumer products manufacturers tend to think they are the fount of all marketing wisdom. But in reality many have become excruciatingly myopic and arrogant," he says.

Similar criticisms have been levelled by McKinsey, the management consultancy, which has many leading consumer goods companies as clients. In a hard-hitting article entitled "Marketing's mid-life crisis", two of McKinsey's European directors say consumer marketing has grown ineffective and needs to be radically rethought.

Some industry executives agree. Mr Crispin Davis, a former top marketer with P&G who now heads United Distillers (UD), Guinness's spirits division, says: "Much consumer goods marketing has not been nearly as good as it should have been."

The situation is even worse than it appears, he says, because in some companies marketing spending has lagged sales growth in the past decade - or even fallen in absolute terms - while a growing share of it consists of price discounts to retailers.

In the US, such attitudes appear so prevalent that the lead article in the current Harvard Business Review argues, as if reporting a recent discovery, that companies which invest consistently in marketing over a long period earn better returns than those which insist on quick results.

Marketing departments are increasingly faulted, often within their own companies, for taking their eye off the ball. McKinsey blames creeping bureaucratisation: it estimates that the typical department in larger companies spends 80 per cent of its time on routine administrative chores and only 20 per cent working on product innovation strategy and ways of serving retailers and consumers better.

If that sounds reminiscent of companies such as General Motors and Philips a decade or so ago, it may be partly because consumer goods producers have not been exposed to the Japanese export competition which has forced so many other western manufacturing industries to slim down, restructure and re-examine their approach to customers. Of Japan's consumer goods companies, only cosmetics maker Shiseido and drinks companies such as Asahi and Suntory have made much

## A rose by any other name

Guy de Jonquière examines the malaise affecting several product brands as consumers switch to private-label lines

effort to expand abroad.

Japanese competition has, however, found a proxy in the retail trade. As the power of big supermarket groups in many countries has increased, they have not only driven harder bargains with their suppliers but are increasingly challenging their traditional franchise with consumers.

The threat is coming from two main directions. One is the rapid growth of aggressive discount retailers, such as Aldi of Germany and US warehouse "clubs" such as Costco. Though many offer only limited grocery ranges, their high volumes, thin margins and low costs result in exceptionally cheap prices which are challenging the traditional marketing strategies of both manufacturers and other retailers.

A potentially even more menacing development is occurring at the other end of the market, due to the growing sophistication of private-label ranges. These were long dismissed by manufacturers as commodity products or inferior imitations which sold purely on price - much as Detroit decided early car exports from Japan. Yet in several countries private-label lines are now taking on established brands on their own terms.

In the US, private-label has recently eaten into high-margin categories once held to be impregnable, such as breakfast cereals, cookies and beauty products, and many consumers now rate its quality equal to that of manufacturer brands. In the UK, where private-label is stronger than in any other country, it dominates some newer markets for fast-growing premium products, such as chilled recipe dishes.

Out of these developments, a new battlefield is emerging. Manufacturers have gradually recognised that their struggle with retailers is no longer simply over prices and shelf space but over the essence of their competitive advantage - brand strength and the profit margins which go with it.

The trend has been particularly pronounced in Britain, where supermarkets' success in fattening margins by moving private-label up-market in the 1980s has recently inspired similar efforts by some North American and continental retailers.

J. Sainsbury and Tesco, the two biggest chains, now rank among the 10 most heavily advertised UK brands - ahead of those of almost

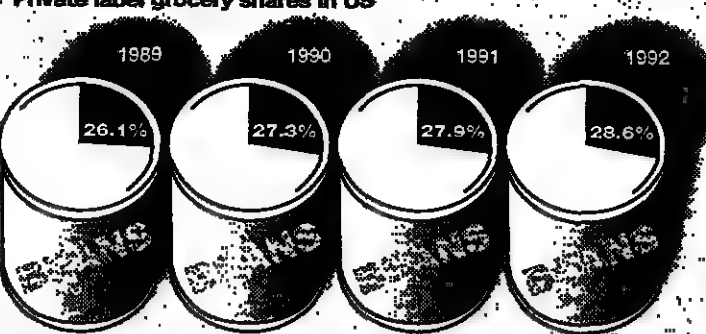
**'Consumer products manufacturers think they are the fount of marketing wisdom. But many are myopic and arrogant'**

all their suppliers - while their marketing emphasises image and intangible benefits such as quality, service and value, as well as individual product lines.

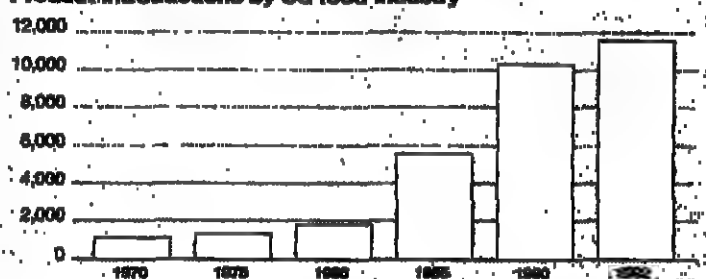
Whether that repositioning will prevent them losing sales to "hard" grocery discounters is uncertain. But the big supermarkets' efforts to place private-label on a par with manufacturer brands seems likely to continue thanks to two strengths, also shared by retailers

## Brand names: beans doesn't always mean Heinz

Private label grocery shares in US



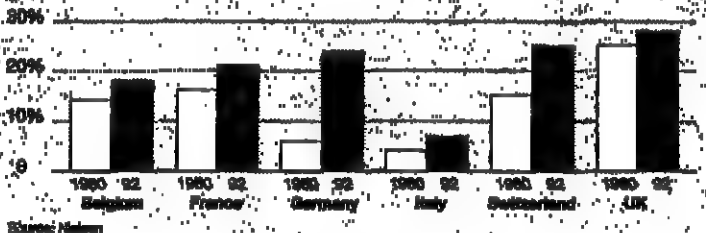
Product introductions by US food industry



Development of discounters in Europe

	Share of total sales by value, 1992	Share of total sales by value, 1991	Share of total sales by value, 1990
Belgium	19%	2.4%	0.9%
France	22%	2.9%	1.2%
Germany	25%	2.4%	1.1%
Netherlands	17%	1.1%	0.5%
Spain	9%	1.1%	0.5%
UK	9%	4.2%	2.4%

Private label share of value sales



such as Marks and Spencer and Boots.

One is investment in highly efficient distribution systems and stringent product and quality control standards, which sometimes exceed those of branded manufacturers. The other is unmatched access to immediate information about consumer purchasing patterns.

Retailers have no clearer idea than branded manufacturers how housewives will behave tomorrow, or why. But they know far more about what they bought yesterday, thanks to the reams of data churned out by their point-of-sale systems.

That offers a big advantage in bringing new products to market. While manufacturers have to spend months test-marketing innovations and large sums to market them, supermarkets can experiment cheaply at low risk by stocking their shelves with goods developed to their specifications and watching how they sell.

Faced with these challenges, how can branded manufacturers regain the initiative? Some have sought to turn from confrontation to co-operation with retailers. The trend was pioneered by an informal partnership between P&G and Wal-Mart,

the large US discount chain, and has been emulated by other manufacturers such as Mars and Coca-Cola.

Such arrangements aim to increase both partners' sales and manage the supply chain more efficiently by sharing information. Their success may depend, though, on manufacturers being undisputed

**Black Label scotch sold poorly in Greece as status-conscious drinkers thought the bottles could not be seen in night clubs**

brand leaders which can offer retailers in-depth product market expertise. Even where that is the case, the spread of such partnerships is still inhibited by mutual suspicion and hostility, particularly in Europe.

But the toughest challenge remains to come up with products which consumers really want to buy. Though recession has made low price the overriding concern for some consumers, there is plenty of

evidence that many are ready to pay a premium if they are really convinced they are getting something special for it.

Few producers have found it easy to come up with such products in recent years, despite a frenzy of new product launches. There were 11,500 in the US food industry last year, double the number in 1985. However, many involved minor brand extensions, cosmetic packaging changes and copycat products.

There is a growing belief in the industry that such tactics have proved counter-productive by cluttering supermarket shelves with similar goods and heightening consumer scepticism towards advertising claims.

Some manufacturers now accept that a bigger effort is needed to raise the standards of new products and differentiate them from the competition, by focusing development more tightly and concentrating behind fewer brands. That, in turn, is prompting a rethinking of management and marketing methods.

Unilever, the Anglo-Dutch group, has radically restructured Elida Gibbs, its UK personal products subsidiary, by abolishing traditional management divisions and creating teams which co-operate at every phase of the product cycle, from research to sales. Kraft General Foods, part of Philip Morris, is also experimenting with teamwork in an effort to beef up product development and marketing in Europe.

But the benefits of such reorganisation also have to be effectively communicated to consumers. That is an issue on which opinions differ sharply. Unilever, for instance, stoutly defends the virtues of classic mass-market advertising. But Nestlé of Switzerland, the world's largest food group, is far more sceptical.

Mr Peter Brabeck, Nestlé's chief marketing strategist, believes the growing power of retailers, the fragmentation of television media and more sophisticated shopping habits have made it increasingly hard to influence consumers. People today don't just act because someone tells them something," he says. "You have to find a way to communicate which is believable and relevant to them."

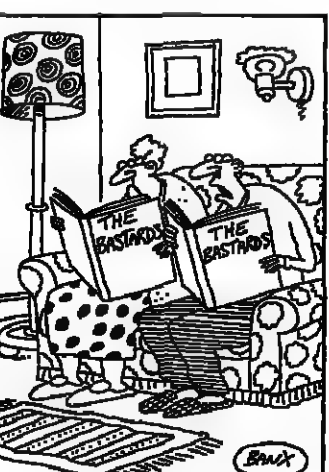
One option favoured by Nestlé and a growing number of other companies is to resort to more direct channels of communication. With the aid of detailed databases about shoppers, they hope to encourage loyalty by rewarding regular customers and informing them directly of new products and special offers.

Some industry experts say, though, that what producers really need to do is to listen more. A survey by Professor Quelch found that US consumer brand managers typically spent only three per cent of their time in face-to-face contact with buyers of their products and relied for most of their information on numerical market research data.

"Most companies are not spending enough time really understanding consumers," says Mr Davis of UD. He says some of his most useful market research is done on Saturday mornings, when he regularly visits his local supermarket to watch shoppers in action. He has also arranged for his managers to spend evenings serving at bar counters.

One recent result was the discovery that Black Label scotch was selling poorly in Greece because status-conscious drinkers thought the bottles could not be seen clearly in dark night clubs. Successful marketing has always required fanatical attention to such apparently trivial details. If brands have lost some of pulling power, it is because too many producers have forgotten that their value depends largely on finding out what consumers want and giving it to them at the right price. In that sense, their biggest challenge is to get back to basics.

## OBSERVER



sacking left Cameron unscathed. He also combines amiability with a cool head and a firm hand - not a bad set of attributes for tough times ahead.

**Fictional friends**

If nothing else, John Major will one day leave behind him a lasting curiosity: what on earth did he see in that dreary late Victorian novelist Anthony Trollope?

But Trollope is a terrific cure for insomnia, so the prime minister has probably packed some of his 50 or so novels to help him get a few good nights' sleep in Blackpool this week.

It must be hoped, though, that Major's advisers will steer him clear of one particular edition of The Prime Minister. Trollope's novel dealing with that by-now probably extinct breed, the Liberal party prime minister.

For in the Oxford edition of 1973 the preface describes Trollope's prime minister as having "no clear idea what to do with himself and with his colleagues". The hero is delineated thus: "A virtuous, dutiful, sensitive type, easily offended as well as easily wounded. Above all, completely without any ideas about policy..."

At least there's no mention of bastards.

**Rectoress**

The fightback has begun. After more than a decade of men colonising the fellowships and student intake of Oxford's former women's colleges, a woman has finally been elected to head one of the university's former male preserves.

Professor Marilyn Butler, elected yesterday as Rector of Oxford's Exeter College, is currently King Edward VII professor of English literature at Cambridge. Her husband is David Butler, the renowned academic psephologist. While he became a household name in the 1960s, she was bringing up three children at the same time as writing the

doctoral thesis that launched her academic career.

Given the inter-college battle for her services, Butler may be the first of many female heads of House. Both Merton and Keble Colleges approached her before the summer, but Exeter came up with a definite offer while the other two were on collective vacation.

**Food for thought**

The London Business School has responded to Observer's appeal for names of suitable guests to be invited to tonight's private dinner in Blackpool for Lady Thatcher.

It has just published the results of a poll of its latest intake of MBA students, which asked the budding business brains which three people they would most like to wine and dine.

The exercise - part of the admissions procedure - is not entirely frivolous; it's designed to reveal something about the character and interests of the candidates themselves.

Two of the three "winning guests" - Richard Branson and Mikhail Gorbachev - might be appropriate dinner companions at tonight's bash. The other one, Leonardo da Vinci, is unfortunately unavailable.

Also popular were Jesus Christ, Einstein and Margaret Thatcher herself. At the other end of the scale were Hitler, Rommel and Jeffrey Archer.

Tokyo ahead







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## INSIDE

### Shell and BP to spend \$1.2bn on Mars

Shell Oil and BP have announced plans to develop the Mars field, the largest oil and gas discovery in the Gulf of Mexico for the past 20 years. The two companies will spend \$1.2bn on the project, which will begin production towards the end of 1996. Page 22

### German exchanges to merge

The Frankfurt stock exchange and Deutsche Terminbörse, the screen-based futures and options exchange, will merge at the beginning of next year. Page 18

### Tough times for Telefonica

Spain's telecommunications deregulation programme could cost Telefonica 25 per cent of its domestic business within the next four years, consultants Price Waterhouse have forecast. Page 18

### Safeway doubles money

Safeway says it more than doubled its North American earnings in the third quarter, despite persistent economic sluggishness in the western US and Canada. Page 19

### Carmakers run tight circle

Three Japanese carmakers are to supply each other with vehicles for the domestic market. Nissan, Fuji and Mazda hope that the move will allow them to maintain their product ranges while reducing development costs. Page 20

### Hutchison takes on Chinese port

Hutchison Whampoa, the Hong Kong-based conglomerate, is to acquire control of the port of Yantian in China's Guangdong Province. Page 20

### Wehmiller lifts profits

New business in the Far East and Latin America has helped Barry Wehmiller International, the packaging equipment manufacturer, to lift pre-tax profits 8 per cent to \$7.1m (\$10.72m) for the year ended July 31. Page 24

### Black outlook for island cotton

Despite the efforts of governments and farmers' organisations, it seems unlikely that Barbados, Antigua, St Kitts and Montserrat will again produce their famed sea island cotton in quantities that will satisfy world demand. Page 31

### Pacific Rim attracts Nomura

Equity markets on the Pacific Rim continue to generate interest. Growth rates and generally rising share market valuations have prompted Nomura in London to double its model portfolio weighting for Hong Kong and introduce Malaysia, the Philippines and Korea. Back Page

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### Chief price changes yesterday

FRANKFURT (DM)		Club Med	
Riesse	567.5 + 21.5	Club Med	1170 + 45
BMW (d)	417 + 14	Yves	2024 + 124
DW	355.5 + 23	Bentley-Hill	2580 + 165
Deutsche	380 + 21.5	Tallinger	
Kaufhof	324 + 21	Schwabach	356 + 25
Schwaibach Ltd	457 + 12	Schwaibach	
Sas Chemie			
NEW YORK (\$)		TOYOTA (Yen)	
Riesse	1914 + 1	Riesse	1140 + 100
Stetway	56 + 1	Rampen Lock	
DW	225 + 4	Failli	
Advanced Micro	68 + 1	Wiken Kogata	1080 + 100
Heaven-Packer	68 + 1	Wintona	6750 + 510
IBM	68 + 1	Miyata Pot	715 + 64
Minolta	68 + 1	Taipei	613 + 26
PARIS (FF)		Tokyo Electric	
Riesse	522 + 20	Tokyo Electric	580 + 50
Becare Ce			

### New York prices at 12.30pm

LONDON (Pence)		Senior Eng	
Alcatel	274 + 6	Senior Eng	2294 + 110
Amstrad	513 + 23	Steno	158 + 10
Conex (A)	232 + 2	Tesco	208 + 8
Fort	232 + 2		
Oronals	378 + 20	Telepak Fde	134 + 10
Invergordon	258 + 20	Dunlop Jorline	68 + 9
Manchester Ltd	223 + 25	Rain Inds	84 + 6
Murray Ext	280 + 2		
Rinkstar			

## As Daimler makes New York debut, a German retailer joins the trend

# Kaufhof sets sights on the US market

By David Waller in Frankfurt

KAUFHOF Holding, one of Germany's largest retailing groups, announced yesterday that it planned a sponsored American Depositary Receipt programme for its shares in North America.

The sponsored ADR programme is the second to be set up by a German industrial company, following the one for the full listing obtained by Daimler-Benz yesterday. But the timing of the announcement suggests that other leading German companies have recognised the logic behind Daimler's move.

Volkswagen, the carmaker, is the other German non-financial company to have a sponsored ADR programme.

Kaufhof said that in setting up the programme it was reacting to US institutional investors' interest in buying dollar-denominated shares in German companies. It said 2 per cent of its equity was owned by US investors, but it

had no plans to raise funds directly in the US market.

A sponsored ADR programme is one of three ways that shares in non-US companies can be traded in North America. Under such an agreement the company formally appoints a bank as trustee for its shares.

These are packaged by the bank into dollar-denominated securities, which are then available over-the-counter to US investors. The company undertakes to bear the cost of the programme.

Foreign company shares can be traded via un-sponsored ADR programmes: this takes place without the co-operation of the company and any trust bank can act as depository institution.

A full listing, such as Daimler obtained, is at the other extreme. Under this, the company has to comply with the strict disclosure requirements of the Securities and Exchange Commission, US securities industry watchdog. The sponsored ADR pro-

gramme is a half-way house: Kaufhof has obtained SEC approval but, as the shares are not to be listed, it will not be obliged to restate its accounts according to US Generally Accepted Accounting Principles (GAAP), as Daimler has done.

The requirement to publish figures according to US rules is regarded with circumspection by German companies, many of which are angry at Daimler's unilateral move to the New York stock exchange.

Mr Christian von Jagwitz, a managing director at CS First Boston, an investment bank advising the Cologne-based company, said the move represented a significant commitment to the US investment community. Mr Jens Odewald, Kaufhof's chief executive, will give presentations in New York and Boston in the third week of October.

Kaufhof said it expected sales this year to rise 6.3 per cent to DM22.2bn (\$13bn).

Edzard Reuter (right) applauds the start of trading in Daimler shares, with NYSE chairman William Donaldson (centre).



## Amstrad beefs up top management

By Alan Cane in London

AMSTRAD, the troubled consumer electronics group, has rehired the technological wizard behind many of its earlier successes and is looking for a new chief executive as it seeks to restore profitability through growth and acquisition.

The strategy includes closing Amstrad's Spanish subsidiary and measures to reduce the company's dependence on the professional personal computer business.

Mr Alan Sugar, Amstrad's founder and chairman, said that Mr Robert Watkins, who left Amstrad last year to become group managing director at Binatone, had returned to manage Danell Radio, which Amstrad acquired last month.

Mr Watkins had been credited with helping to develop many of the company's "blockbuster" products. The Danish cellular radio company is seen as the key to Amstrad's ambitions in mobile communications.

Mr Malcolm Miller will take charge of the consumer products group. Amstrad's core business, while the new chief executive will be responsible for finding and managing acquisitions in areas which have synergy with electrical and electronic products.

Amstrad's results for last year showed that the group returned to profitability before charges. Operating profits were £15m (\$22.7m) and the group earned interest income of £7.2m. Closure of the Spanish subsidiary, however, meant that £25m



Alan Sugar (left) with promoted Malcolm Miller

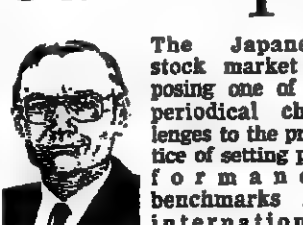
in goodwill was charged against profits, leaving the company with an overall pre-tax loss of £30.5m compared with £70.7m.

Turnover for the year to June 30 was £208.5m, 13.5 per cent down on last year's £236.5m. Losses per share were 2p, cut from 6.7p; the company is paying a final dividend of 0.3p a share making a total for the year of 0.5p.

Lex, Page 16; Details, Page 22

## Barry Riley

# The time has come to cut Japan down to size



The Japanese stock market is posing one of its periodic challenges to the practice of setting performance benchmarks for international equity portfolios. Tokyo's market capitalisation has bounced back and is once more threatening to impose its own unrealistic values on global fund managers.

Benchmarks are usually based upon stock market indices, and indeed the global stock market index series - such as the FT-100 and the Nikkei - were constructed primarily with this purpose in mind. A fund manager's starting point can therefore be, say, the World ex-US Index, which he must track or beat.

But once before, in the late 1980s, the Japanese bubble threatened this approach. At the peak in late 1989 the Tokyo market was worth 45 per cent of the world market capitalisation. What was worse, it amounted to more than 60 per cent of the global market outside the US, a degree of concentration that threatened to destroy the whole purpose of international diversification for US pension funds.

A lesson was learned. If you follow the index-based approach too slavishly you can wind up overexposed to the overvalued markets and underexposed to the cheap ones. It was enough to encourage dabbling with alternative weighting schemes, such as GDP weights. But then, to everyone's relief, especially to that of western fund managers who were underweight in Tokyo, the Japanese bubble was deflated.

By mid-1992 the Japanese market was down to a 24 per cent World Index capitalisation weighting. It was still a bit high, but was not wildly out of line with the Japanese share of GDP of the Organisation for Economic Co-operation and Development area (about 20 per cent).

Given that the Nikkei Dow Average is still at only just over half its peak level, there the matter might have rested. But in the past year a new bubble has blown up, this time involving the yen. Unhinged UK investors could have achieved a return of 80 per cent over the past year, in the unlikely event of matching the performance of the Tokyo

market (as it was in the late 1980s) 40 or even 60 per cent but more like 90 per cent.

Here is how the problem appears to UK pension funds. A manager following a median benchmark will know that the typical exposure of his peer group funds to overseas equities is 24 per cent. Tokyo represents 35 per cent of the World ex-US capitalisation. So about 8% per cent of his portfolio ought to be in Japanese equities.

However, the actual exposure of UK pension funds is only half as much. They are strongly angled towards continental European equities where they have nearly 10 per cent of their portfolios compared with a "neutral" 4 per cent. Our manager with a median benchmark can safely stay on half a full Tokyo weighting and not run much of a risk of performing very differently from his peers. If he had an index-based benchmark, he would be under greater pressure to adopt the full exposure.

The new Tokyo problem is the result of curious circumstances. In theory, when a currency soars the domestic stock market will tumble because profitability is undermined. But Tokyo is underpinned by support from public pension funds. The optimists see a big jump in profits in 1993 as pay levels are cut and the Japanese corporate sector starts to shed surplus workers. It would require a revolution in employer-employee relationships.

How this will work out is the subject of various opinions, but in the meantime those fund sponsors being pulled by benchmarks into heavy exposures to the Tokyo market are being braver than perhaps they realise.

Many companies are facing a currency shock that could prove disastrous

index. And in sterling terms Tokyo is within 20 per cent of its end-1989 peak.

Thus Tokyo has zoomed back, to represent nearly a third of the world market. To US eyes, it amounts to half of the non-US capitalisation. To be fully weighted could be dangerous, but to have been underweight in the past year has been agonising.

None of this would matter much if Japanese companies were powering ahead. Then heavy investment in them might look sensible. But many are facing a currency shock that could prove disastrous and will certainly be uncomfortable. The average return on equity in manufacturing has collapsed to about 2% per cent, and the average p/e ratio for Tokyo stocks is no longer

## AT&T appoints president to target UK as growth area

By Andrew Adams

AMERICAN Telephone & Telegraph, the US telecommunications giant, has appointed its first UK president, to spearhead its growing ambitions in the UK.

Mr Merrill Tutton is one of only three AT&T country presidents outside the US. The other two are in Spain and China, which AT&T also views as important growth markets.

Mr Tutton, 52, was formerly responsible for AT&T's residential long-distance business in the US, which has more than 32,000 employees. It forms a large part of the company's telecommunications services group, which last year generated turnover of \$40bn.

The appointment of such a senior manager indicates the priority AT&T attaches to developing its UK business.

With 7,000 UK-based employees, AT&T has only a modest foothold in the UK. But it has an application pending with the Department for Trade and Industry for a full public network operating licence. It could use the

## Obayashi to leave Californian property market

By Robert Thomson in Tokyo

OBAYASHI, the Japanese construction company, is to withdraw from the US west coast property market by liquidating three Los Angeles-based subsidiaries and writing-off losses of \$30bn (\$278m) in the year to March.

The Japanese contractor can apparently afford to bear the losses this year, as it has avoided the worst of a corruption scandal in which executives from five other leading construction companies have been arrested in recent weeks for the alleged bribery of provincial politicians.

Japanese construction companies, hit by the fall in property prices and orders at home, have been reducing their exposure in the international market. The scandals in Tokyo have given them another reason to minimise investment risks.

Companies implicated in the scandal, including Taisei and Hazama, have been temporarily suspended from bidding for some public works projects, creating opportunities for Obayashi and other contractors which have so far avoided the ignominy of arrests.

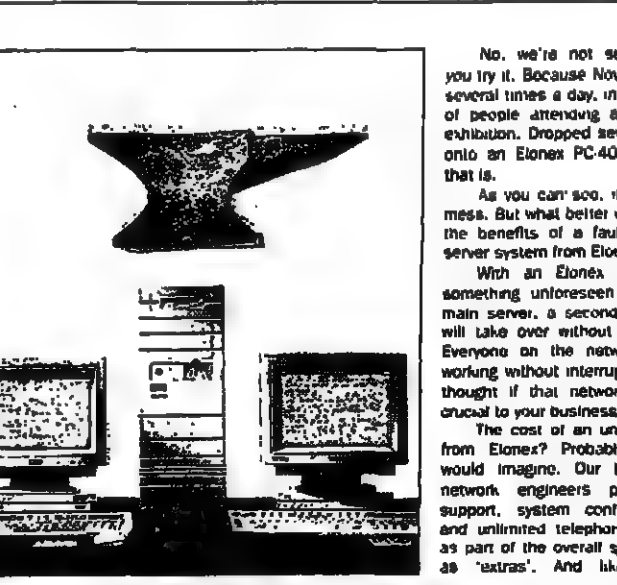
The government suspensions for contractors implicated in the scandal are expected to influence private orders received by the companies.

Taisei said yesterday that it had not lost private contracts, but private orders for the industry are down 30 per cent to 40 per cent because of the depressed property market.

In spite of a record fall of 40.6 per cent in national and local government orders received by the largest 60 Japanese contractors in August, Obayashi said pre-tax profit for the year to March would be \$80bn, up from a previously forecast \$72bn.

The write-offs arising from the Los Angeles liquidations would cut net profit to \$13bn from a projected \$23bn, the company said. Sales for the period were expected to be \$1,600bn, down slightly from the forecast \$1,640bn.

Obayashi will remain active in Hawaii and Europe, but the US west coast market has been weak since the late 1980s. "Outside the US west coast area, in Hawaii, London and other areas, we will continue with development projects, and are seeing firm demand for residential developments and office projects," the company said.



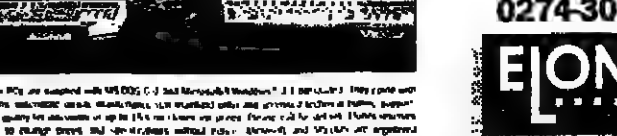
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## INTERNATIONAL COMPANIES AND FINANCE

## Frankfurt SE to merge with Deutsche Terminbörse

By David Waller in Frankfurt

THE Frankfurt stock exchange, the largest of Germany's eight stock exchanges, is to merge with the Deutsche Terminbörse, Germany's screen-based futures and options exchange, at the beginning of next year, the Deutsche Börse announced yesterday.

This is the first change in the structure of Germany's security markets since the creation of the Deutsche Börse, the German stock exchange, at the beginning of the year.

This organisation is a holding company which brings the Frankfurt exchange, the DTB and the Deutscher Kassaver-ein settlements organisation

under one administrative roof. The Deutsche Börse said the aim of the merger of the DTB and the Frankfurt exchange was to integrate the markets for equities and fixed interest securities with that for options and futures. It would lead to further meshing of trading and settlement between the two markets, it said.

These changes are administrative in nature and are unlikely to bring immediate benefits for investors in German securities. However, they are part of a campaign on the part of the German securities industry to improve its competitiveness and are likely to presage significant changes.

"These steps are required in

order to achieve a considerable improvement in the competitiveness [of the German securities markets] against other European markets," the Deutsche Börse said. They would lead to faster settlement and lower costs for investors.

The Deutsche Börse has been considering a move to extend electronic trading for German equities beyond the facilities provided by Ibis, a dealing system created in April 1991 which has captured a significant share of trading in Germany's most prominent shares.

Another possibility is to use the clearing facilities developed for the DTB system for transactions in equities and fixed interest securities.

## GAN bids for control of Canadian insurer

By Alice Rawsthorn

GAN, the state-controlled French insurance company, yesterday mounted a bid to take full control of Simcoe Erie Insurers, a Canadian insurance company in which it is a minority investor.

GAN, the fourth largest insurer in France and one of the government's privatisation candidates, is offering C\$7.825 a share for the remaining shares in Simcoe Erie, valuing the company at C\$19.47m (US\$15m). GAN owns 21.6 per cent of the Canadian insurer.

Simcoe Erie, which is based at Burlington in Ontario, is one of the 20 largest damage insurance companies in Canada with 600 employees. It made pre-tax profits of FF14m (\$2.4m) on turnover of FF1.5bn in its last financial year to June 30.

GAN, which has been more cautious than its French competitors in terms of international activity, described the Canadian deal as "evidence of its willingness to expand into other countries".

It sees the transaction as a stepping stone into the US which has been closed to GAN because of restrictions over inward investment by public-sector companies.

## Thyssen chief confirms loss for full year

THYSSEN, the German steel and engineering group, will post a group loss for the fiscal year to September 30, Mr Heinz Kriwet, the chairman, told the annual meeting of the International Iron and Steel Institute (IISI), AP-DJ reports from Bonn.

Mr Kriwet gave no details of the losses.

A full-year loss for the group comes as little surprise after Thyssen posted a pre-tax loss of DM516m (\$303m) for the first-half of the fiscal year, ended March 31.

## Alcazar partners confront US issue

By Ian Rodger in Zurich

THE selection of a US airline partner for the Alcazar project to merge the operations of four European airlines has been given fresh urgency.

Swissair said yesterday that it and the three other airlines in the project - KLM Royal Dutch Airlines, Scandinavian Airlines System (SAS) and Austrian Airlines - had decided to resolve the issue of selecting a US partner before signing a memorandum of understanding in the next few weeks.

In August, the four agreed to

shelve the US partner issue in the interest of reaching early agreement on other important issues by mid-September. However, that timetable has slipped, creating time for consideration of the US partner issue.

"We now intend to solve the big questions before the memorandum of understanding. To leave a question like this to future discussions would not make sense. It has to be solved anyway," Swissair said, adding that there was no longer a definite timetable for conclusion of the talks.

The airlines' dilemma is that three of the four have trade ties with different US airlines - Swissair with Delta Airlines, KLM with Northwest Airlines and SAS with Continental Airlines - but Alcazar would need only one.

Moreover, the issue is sufficiently important that none of the four would want to go ahead with the Alcazar project without knowing and being comfortable with the selection.

The KLM-Northwest connection would appear to be the most promising because the US and the Netherlands have an

"open skies" agreement. Also, KLM has a 20 per cent equity stake in Wings Holdings, Northwest's parent.

However, Swissair feels strongly about being associated with Delta's quality image. The ties between the two are just beginning to bear fruit. "It would be very difficult for us to break the Delta link," Swissair said.

Potential US partners are reported to have been asked to make presentations to the Alcazar companies, but Swissair said only that there were active negotiations.

## Kuwait sees BNP stake as first move in French sell-off agenda

By Alice Rawsthorn and John Ridding in Paris

KUWAIT may invest in future French privatisations following the announcement earlier this week that it plans to take a 2 per cent stake in Banque Nationale de Paris (BNP), the banking group which is the first candidate in the French government's share sales.

The Kuwait stake - which is divided between the Kuwait Investment Authority and the Kuwait Public Institution for Social Security, each with 1 per cent - is one of the *royaux durs*, or hard core, holdings in BNP that the French government has sold to provide a stable base of long-term shareholders for the bank.

The Kuwait Investment Office, part of the KIA, said yesterday that Kuwait saw BNP as a good investment opportunity and regarded the stake as a medium- to long-term investment. It said Kuwait would scrutinise forthcoming French privatisations for attractive investments.

A number of other foreign companies have taken *royaux durs* stakes in BNP, which is valued at FF43bn (\$7.4bn) by the FF240 a share offer price.

These include General Electric (GE), the US electronics group; BAT, the UK consumer products concern; Roche Holding, the Swiss pharmaceuticals company; and Dresdner, the German bank with which BNP has a partnership agreement.

*Royaux durs* were prominent

## Stable shareholders in BNP

Shareholder	%
El-Aquitaine	2.07
Saint-Gobain	1.81
Fin. et Immobil. Marcel Dassault	1.08
Rhône-Poulenc	1.08
Paquet	1.08
Thiesselt	1.08
Crédit Agricole	1.00
Kuwait Inv. Auth.	1.00
Public Institution for Social Security du Kuwait	1.00
Péchiney	0.83
Roche	0.77
Compagnie Générale des Eaux	0.52
Saint-Louis	0.52
BNP Industrie	0.50

Source: Government figures before possible takeover of up to 10%.

in the earlier privatisation drive between 1986 and 1987. However, most of those investors were French concerns. This time the government is encouraging foreign shareholders to participate.

Roche and GE, like Kuwait, plan to take *royaux durs* holdings in BNP - of about 0.77 per cent and 0.78 per cent respectively - as financial investments.

Roche said its investment was being made through its portfolio management division. GE will take its stake through three pension funds.

Similarly, BAT is buying its proposed 0.5 per cent stake in BNP as an investment on behalf of its insurance operations and pension fund. It

decided to participate as a *royau dur* to ensure that it was guaranteed a stake in the bank even if, as expected, the issue was over-subscribed.

However, the UK group, which has substantial tobacco interests, sees the BNP investment as a strategic step towards securing a stake in Seita, the French state tobacco monopoly which is scheduled for sale later in the privatisation programme.

BAT said that its participation in the BNP issue was "a sign of our commitment to France" that "should help strengthen our relations with the French government", thereby improving its prospects of being accepted as a *royau dur* in Seita.

Dresdner Bank's decision to take a 1 per cent stake in BNP was driven by strategic reasons.

The German bank, which has for some time operated a commercial partnership with BNP, recently negotiated a cross-shareholding agreement whereby each bank would take up to 10 per cent of the other's equity.

That agreement is awaiting authorisation from the European Commission.

Many of BNP's French *royaux durs* are industrial groups in which the bank is already a minority investor, such as Saint-Gobain, Péchiney, Compagnie Générale des Eaux and Saint-Louis.

Most of the other domestic *royaux durs* are clients of the bank.

## Telefónica 'may lose 25% of home sector'

By Tom Burns in Madrid

TELEFONICA, the Spanish telecommunications company, stands to lose about 25 per cent of its domestic market within the next four years under new liberalisation guidelines, according to a report on the sector presented yesterday by Price Waterhouse, the accountancy firm.

British Telecommunications, which has formed an association with Grupo Santander, the Spanish banking group, will be bidding for a data transmission licence later this month, and at least three Spanish consortia, linked with international operators, are in the running for cellular telephone licences. These will be awarded by the government in the second stage of the deregulation process early next year.

Price Waterhouse forecasts that independent companies will gain 15 per cent of the data transmission business, 30 to 50 per cent of the cellular telephone sector and up to 50 per cent of the value added network services that are currently provided by Telefónica.

The businesses that are being opened to competition represented just 1 per cent of Telefónica's revenues in 1990 but had grown to nearly 15 per cent of the company's turnover by last year.

Voice transmission and the basic Spanish network, which accounted for 82 per cent of Telefónica's revenues in 1992, will not be deregulated until 2003.

## CarnaudMetalbox plans sale

By John Ridding in Paris and Christopher Brown-Humes in Stockholm

CARNAUDMETALBOX, the Anglo-French packaging group, plans to sell its high-performance plastics division to Huhtamäki, the Finnish consumer products group.

The sale, which is subject to the signing of an agreement by the middle of this month, comprises all CarnaudMetalbox's activities in the division, which supplies rigid plastic packaging for the food industry. The division has factories in France, Northern Ireland, Italy and Portugal. It employs about 750 people and achieved sales last year of FF650m (\$113m). CarnaudMetalbox would not disclose the value of

the disposal or the profits of the division.

The Anglo-French group said it was selling the division because it represented only about 7 per cent of the European market for rigid plastic packaging and conditions required a stronger presence.

Mr Jürgen Hintz, chief executive, said the sale would allow CarnaudMetalbox to focus on its main strategic activities where it has technological and marketing leadership.

Mr Timo Peltola, Huhtamäki's chief executive, said the acquisition complemented Polarcup, the company's own packaging division, which last year had net sales of FF1.8bn (\$316m). "Although already Europe's leading company in the field, Polarcup has had no

manufacturing presence in France or Italy. The acquisition will also strengthen our product range in dairy and other food containers," he said.

The Finnish group said it may launch an international equity issue to finance the deal.

It also disclosed a 9 per cent rise in profits after financial items to FF307m for the first eight months and maintained its prediction that its full-year result would exceed last year's FF399m profit. The improvement stemmed mainly from lower financial expenses, with operating income virtually unchanged at FF406m. Sales grew 14 per cent to FF506m, helped by the weaker Finnish marks.

## Silentnight rises 27% at midway

By Andrew Bolger in London

SILENTNIGHT Holdings, Europe's biggest manufacturer of beds, said a full contribution from its German acquisition and remedial action in the US helped increase interim pre-tax profits 27 per cent to £8.2m. Turnover rose 13 per cent to £78.6m in the six months to July 31.

Details, Page 23

## Breda finance unit to be put in liquidation

By Robert Graham in Rome

FINBREDA, the quoted finance company of the Breda group and part of Efim, the state-run industrial holding company, is to be placed in liquidation following the announcement of a loss of L232bn (\$146m) in the first half of this year on top of 1992 losses of L358bn.

The company said the losses were mainly due to financial charges relating to defence subsidiaries Oto Melara and Breda Meccanica Bresciana.

The move forms part of the overall liquidation of Efim set in motion in July 1992. The defence units are being merged with Finmeccanica, the engineering arm of state-owned IRI.

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SEPTEMBER 1993

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Dillon, Read & Co. Inc.

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## INDEX CONSTITUENTS

LISTS OF the constituent stocks of the FT-SE Actuaries Share Indices series and other FT indices are available at no charge from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL.

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## INTERNATIONAL COMPANIES AND FINANCE

## QVC arranges \$4bn finance for Paramount bid

By Martin Dickson and Richard Waters in New York

QVC Network, the home shopping channel headed by Mr Barry Diller, yesterday said it had arranged financing of \$4bn to back its bid for Paramount Communications.

It also said it had delivered evidence of the financing arrangements to Paramount in an approach which could spark discussions for the first time between the company and directors of Paramount.

The board of the besieged TV and film production company, which is backing a rival offer from cable TV group Viacom, has said it would consider the QVC bid when there was "satisfactory evidence" of financing to support it.

Yesterday, QVC said it had letters covering \$4bn of financing, and that documents supporting this had been delivered to Paramount. Paramount could not be reached immediately for comment.

The \$4bn comprises two \$500m equity investments in the company that had already been reported, from Comcast and Liberty Media, and commitments from six banks to provide \$500m each towards a bid. The six are Chemical Bank, Bank of Nova Scotia, Barclays, LTCB Trust, Nations Bank and Toronto Dominion Bank.

QVC's \$9.5bn cash-and-share bid for Paramount includes \$30 per share in cash, or \$3.52bn. Viacom, meanwhile, gained a powerful new ally in its battle to take over Paramount when

Nynex, the regional telephone company serving the north-eastern US, agreed on Monday to invest \$1.2bn in Viacom.

Monday night's deal, along with a similar \$600m investment in Viacom last week by video retailer Blockbuster Entertainment, will give the company a war-chest of almost \$2bn with which it could increase its bid for Paramount. Viacom's agreed shares and cash offer for Paramount, which owns the Hollywood film studios of the same name, is worth around \$7.5bn, which is \$2bn less than the hostile shares and cash offer from QVC.

One report suggested QVC might itself be talking to Bell South, the largest "Baby Bell" regional phone company, about backing its bid.

For Nynex, another of the seven "Baby Bells," this week's deal represents a big leap into the US cable television industry.

Several other US regional telephone companies have already made large investments in the cable industry, as the two sectors converge to create one huge interactive, multi-media communications industry. Nynex will buy \$1.2bn of 5 per cent Viacom cumulative preferred stock convertible into Viacom Class B non-voting stock at a price of \$70.

Mr William Ferguson, chairman of Nynex, will join the Viacom board, as will Mr Wayne Huizenga, chairman of Blockbuster.

See Lex

## Trizec debt move may miss default deadline

By Robert Gibbons in Montreal

SENIOR debenture holders of Trizec, the troubled North American property group, will continue studying the company's financial restructuring plan for another two weeks.

Trizec, a publicly-held affiliate of the Hees-Edger group of Toronto, proposed a C\$1.86bn (US\$1.39bn) debt and preferred stock restructuring in August. It sought approval by October 20 to avoid default on a C\$84m Swiss franc debenture issue due then.

The trustee for the senior debenture holders owed C\$1.1bn said advisers are studying Trizec's legal and financial situation closely to determine whether the restructuring is acceptable. When they have all the information needed they will resume negotiations with Trizec.

The company said it was willing to delay the approval meeting beyond October 20 and find means to avoid technical default on the Swiss debenture issue if necessary.

Trizec's debt, some in bearer form, is held widely in North America and Europe, making the approval process for the restructuring complex. The company was caught by the 1991 slump in North American property markets.

The senior debenture holders' steering committee is headed by a representative of the Union Bank of Switzerland.

## Retiring Ford chief warns on overcapacity

By Kevin Donohue, Motor Industry Correspondent

EXCESS capacity is the biggest problem currently facing the world auto industry, Mr Harold Poling, who is to retire as chairman and chief executive of Ford at the end of the month, has warned.

"Overcapacity will result in some down-sizing and some consolidating in the world industry for the rest of the decade," said Mr Poling.

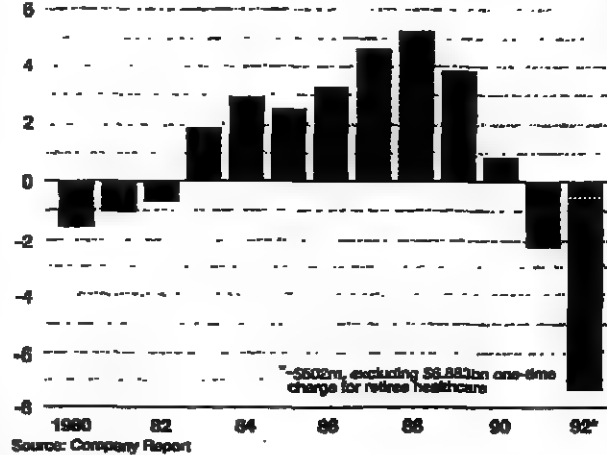
The worldwide recession has masked "the more fundamental concern" of overcapacity, said Mr Alex Trotman, who will take over as chairman, chief executive and president of Ford from November 1. "Overcapacity will cause the consolidation and restructuring of the auto industry worldwide," said Mr Trotman in an interview.

"Not everyone will be around by the end of the century, certainly not in their current configurations."

Both Mr Poling and Mr Trotman ruled out any early move by Ford to increase its present 24.5 per cent stake in Mazda, the troubled Japanese car-maker, which warned recently

## Ford Motor Company

Net profit / loss (\$bn)



that it faced losses of around \$320m (\$302m) in the current financial year.

"It is a key issue how we go about it in the next 10 years. They do have serious problems," said Mr Trotman. "We have no plans to increase our stake in Mazda. It is a big decision for us. The terrain is changing with the difficulties they are having in Japan."

Mr Poling said that Ford.

which lost \$2.76bn in 1991 and 1992 (before a one-time charge of \$6.88bn, principally to fund healthcare payments for retired workers) had to strive to be a low-cost producer in the world industry.

"When you are the low-cost producer you are in charge and regardless of what the opposition does, they will hurt more than you do."

Both Mr Poling and Mr Trot-



Harold Poling: sees excess capacity as biggest problem

officer of Ford Motor Credit, while Mr William Clay Ford Jr is general manager of the climate control division. Both now serve on the board's executive and finance committees.

Asked if one of the Fords could become chairman and chief executive, Mr Poling replied: "It is possible. Both of the boys are in jobs where they are learning a lot. They are building background experience. They both aspire to that objective. Yes, it is possible."

Mr Trotman said Ford's worldwide capital spending in the next few years would "substantially exceed" the \$30bn spent in the five years to 1992.

Overall profitability was improving - it earned \$1.35bn in the first six months of the year - but its financial performance was still burdened by higher marketing costs, lower capacity utilisation and record spending worldwide on new product programmes. US new car sales remained below trend and the economies of most large European markets continued to worsen.

"Ford of Europe is coming round, but we are going through difficult times. The digging out area is Europe."

## Newfoundland to privatise power unit

By Robert Gibbons in Montreal

NEWFOUNDLAND plans to follow the example of neighbouring Nova Scotia in privatising the Newfoundland and Labrador Hydro Power generating utility in order to ease the province's severe financial pressures.

The initial proposal is to sell Newfoundland Hydro to Fortis, a publicly-traded holding company which provides 85 per cent of the island of Newfoundland's power through its distribution subsidiary.

Talks with Fortis are expected to take up to six months, but the provincial premier, Mr Clyde Wells, says that if a deal cannot be reached, another privatisation route will be found.

Fortis also has interests in telecommunications and a property management unit. Newfoundland Hydro gener-

ates most of its power at the Bay d'Espoir hydro plant.

The province's plan would effectively merge Newfoundland Hydro with the Fortis distribution company. The merged company would have assets of C\$1.8bn (US\$1.35bn), capacity of nearly 2,000MW, annual revenues of more than C\$700m and more than 2,000 employees. After the merger it would be taken public.

Mr Wells, himself a former Fortis chairman, said the new company would still be subject to regulated power rates. He wants to reduce the province's indirect obligations to Newfoundland Hydro, escaping a guarantee of the utility's C\$1.4bn debt.

Newfoundland Hydro is planning to privatise certain activities to reduce debt. Hydro-Quebec, one of Canada's two biggest utilities, has considered following a similar path.

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## BMW sales up by 19% in US

BMW, the German car manufacturer, which has announced that it is to build a manufacturing plant in South Carolina, reported that US sales advanced by 19 per cent in September, compared with a year ago, to 7,018 units from 5,883. Reuter reports from Frankfurt.

In the first nine months of this year, sales climbed to 57,763 vehicles from 49,208 in the year-earlier period.

## Safeway third-quarter profit more than doubled

By Frank McGurty in New York

SAFEWAY, the North American grocery retailer, yesterday said that its earnings had more than doubled in the third quarter in spite of persistent economic sluggishness in the western US and Canada, where most of its 1,100 stores are located.

In the quarter to September 11, net income was \$42.1m, or 34 cents a share, compared with \$20m, or 17 cents, in the corresponding period of 1992. Revenues climbed 3 per cent to \$3.6bn, in spite of a declining exchange rate for the Canadian dollar and low price inflation throughout the food sector.

On a same-store basis, Safeway sales increased 3.1 per cent, at a time when most of its west coast competitors were experiencing flat sales growth or small declines.

Wall Street responded enthusiastically to the results, which exceeded analysts' consensus forecast of 29 cents a share. By midday, the stock reached a 52-week high of \$19.4, up \$1.

The earnings improvement

reflects the company's continued success in controlling costs through staff reductions and improved purchasing procedures.

Operating and administrative expenses in the quarter slipped to 23.8 per cent of sales, against 24.4 per cent last time. The California-based chain has staged an impressive turnaround under the leadership of Mr Steve Burd, who assumed the job of chief executive in March.

"Mr Burd has changed the culture at Safeway," said Mr Richard Church, an analyst with Smith Barney Shearson in New York. "The company has not only cut costs, but has become more focused on its customers by passing the savings along through lower prices. That is reflected in the sales improvement."

Mr Gary Giblen, who follows the company for PaineWebber, expects Safeway to continue showing improvement as a reduced cost structure enables the chain to lower prices, offer better service and further improve sales. "Mr Burd has entered the virtuous circle of retailing," he said.

## Investcorp expands into music with Camelot deal

By Karen Zagor in New York

INVESTCORP, the Arab-led investment consortium, plans to expand its retailing operations into the music sector through the acquisition of Camelot Music, the third-biggest US music retailer.

Investcorp is believed to be paying more than \$350m for the privately-held Camelot, which had revenues of \$421m in fiscal 1993. Neither company would reveal the terms of the deal, which is expected to be complete by the year-end.

Mr Paul Soldatos, a member of Investcorp's management committee, said Camelot had "significant growth potential". Investcorp is expected to expand Camelot's foothold in the music retailing business through other acquisitions.

Investcorp has a significant presence in the US retail world through its ownership of Saks Fifth Avenue, the upmarket department store group which

it bought in 1990 for \$1.6bn from the UK's BAT group. Its North American interests also include the Tiffany jewellery chain, Peebles Department Stores and the Circle K convenience store chain.

Earlier this year Investcorp gained control of Gucci, the luxury goods group. In the UK, it bought Thorn EMI's Lighting division for \$162m in what was effectively a management buy-out. According to US trade publications, Investcorp bid against HMV of the UK for Camelot.

Camelot, which has 365 stores in 34 states, was founded by Mr Paul David in 1986. Most of its stores are in shopping malls. They sell compact discs and cassettes in addition to video-cassettes and other home entertainment products.

Mr David is expected to retire as Camelot's chairman, president and chief executive. Mr James Bonk, 45, will take on the positions of president and chief executive.

## Bayerische Landesbank Bulletin

MONEY AND CAPITAL MARKETS REPORT

## GERMAN BOND MARKET PAUSE FOR ORIENTATION

After the latest cut in the key rates, the German bond market adopted a wait-and-see attitude. As the market is lacking impetus, it has stopped to get its bearings.

The latest half-point cut in the key rates on 9th September patently failed to cheer up the bond market's reaction that did not come as a complete surprise. The public bond yields hardly budged. The sixth rate cut this year (the discount rate has been cut five times and the Lombard rate five times) did not give bond prices a further upward push. Instead, the capital-market rate has been moving sideways, which shows that the market is lacking incentives for rise.

As the Bundesbank will see no need for further action on the discount and Lombard rates in the near future, the bond market has paused for orientation. However, the downward trend in interest rates, mainly those at the short end, is still intact.

By historical standards, for example if the multi-year range of real interest rates or the spread between the discount rate/Lombard rate and the ten-year bond yield are used as a yardstick, money-market rates are still too high. The real interest rate, using the inflation-adjusted ten-year public bond yield as a measure, has shrunk to just under 2 percent, the discount rate is equal to the ten-year yield, and the Lombard rate is one percentage point above this level. This is an unusual constellation, considering that the rate at the long end of the market, i.e. the yield on ten-year bonds, is only some 70 basis points above the low slumped during previous cycles. The discount rate and the Lombard rate, on the other hand, are still 375 and 275 basis points, respectively, above their previous lows (1987/88).

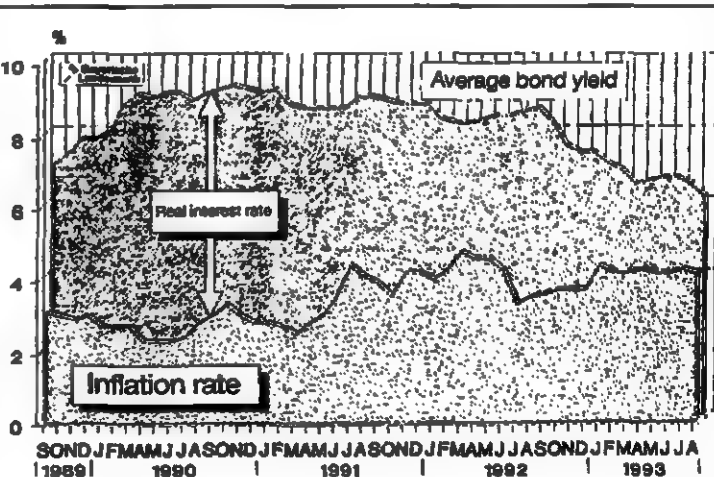
Since the autumn of 1992, the discount rate and the Lombard rate have been reduced from 8 1/2 per cent to 6 1/2 per cent and from 9 1/2 per cent to 7 1/2 per cent, respectively. Money rates have followed the key rates down: the call money rate has fallen by almost 300 basis points to 6.8 per cent and the rate for three-month money by 270 basis points to 6.55 per cent.

As the above figures show, the short rates reflect more or less fully the seven key-rate cuts made since the autumn of 1992. Bond-market rates have fallen even more sharply: the ten-year yield has dropped from 8.1 per cent to 6.2 per cent since the late summer of 1992, the five-year yield by three-quarters of a point more, from 8 1/2 per cent to 5.85 per cent.

Looking at the down-phase of interest rates in the early 1980s, we note that the pace of the key-rate cuts was somewhat slower then. While the discount rate was reduced by 2 1/2 percentage points in less than a year during the present cycle, it had taken about 16 months to lower it by the same margin in the previous one, though from a much lower level (7 1/2 percentage points).

The fall in bond rates was even faster: the descent of the ten-year public-bond yield from its peak to the current level of 6 1/2 per cent lasted almost five years in the 1981/87

cycle, compared with three years during the current cycle. When making such a comparison, however, we should be aware of the divergent national and international trends. The downtrend in interest rates observed since September 1992 gained considerable momentum as a result of the currency turmoil in the EMS and the strengthening of the D-mark thus caused.



The drop in the average bond yield to 6 per cent has caused the real interest rate to fall below 2 per cent. The real interest rate, which stayed within a range of 2 1/2 per cent and 5 per cent for many years, has thus slipped below the lower end of this range. It is expected to stay at or near this level until the end of the year and beyond, possibly until next summer. Hikes in administered prices, for example the increase in the oil tax due to be put into effect on 1st January 1994, will keep consumer-price inflation close to 4 per cent. But even after the most recent key-rate cut, interest rates still seem to have room to go lower. Past experience shows, in addition, that real interest rates tend to come under pressure before a cyclical upswing begins and in the early phases of such an upswing. This was the case after the interest-rate turnaround in 1982 and after rates reached their peak during the first third of the 1970s.

In all, one can say that interest rates still have room to go lower. The Bundesbank can, and will, give key rates another downward nudge. Short-term rates are still too high for an economy that has not yet completely surmounted the recession. Sceptics should remember that the necessary duration (and extent) of a rate-cutting process has always been underrated and that, after all, yield inversion at the short end has never been helpful in overcoming an economic decline.

## Slowdown in inflation

The current situation of the capital market after the sixth key-rate cut this year is difficult to assess, but the following conclusions can be drawn nevertheless:

- The Bundesbank will probably postpone further easing steps until money-supply growth starts slowing down.
- Hopes for a further fall in interest rates should stay alive at least as long as the D-mark's strength attracts foreign capital.
- The slowdown in inflation, which has already become noticeable, is also expected to provide relief in the medium term. The inflation rate for the past six months, extrapolated to the whole year, was less than three per cent. Hence there is a good chance, despite the government's decision to raise the oil tax, which will give inflation an upward push in early 1994, that the rise in the cost of living, after a brief dip below four per cent in November, will move down toward 3 1/2 per cent in the spring of 1994. All in

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## MEGAL FINANCE COMPANY Ltd

ECU 75,000,000 - 10 1/8% Dec 1995

Bondholders are hereby informed that, in accordance with the Terms and Conditions of the above mentioned issue, the Issuer will exercise his right to redeem all Bonds at the price of 100 1/4 % on November 15th, 1993, together with accrued interest.

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CREDIT LYONNAIS



## INTERNATIONAL COMPANIES AND FINANCE

## UK moves towards paperless trading

By Antonia Sharpe

THE UK securities industry took a small step forward in its quest for a paperless trading system yesterday when the three vendors of electronic trade confirmation (ETC) systems said they had set a date for testing a link between their systems.

ETC is an automated screen-based process which replaces the current practice of sending paper contract notes between brokers and their institutional clients. ETC also shortens the time taken to confirm equity or fixed-income trades between brokers and institutions. This means any failed trades can be detected before they turn into expensive errors.

Many institutions and brokers have backed the introduction of ETC, but few have subscribed to one of the three systems because they operate independently. As a result, they would have to subscribe to all three in order to confirm trades with each other.

There has been an agreement in principle between the vendors to set up inter-vendor links (IVLs), but progress has been hampered by discussions about who will bear the development costs and how the charges for using the links will be divided.

Yesterday, the International Securities Market Association (ISMA), the London Stock Exchange (LSE) and Thomson Financial Services announced an implementation plan for the tripartite testing of IVLs.

ISMA and the LSE will begin testing on November 29 and testing by Thomson will begin in early 1994. The first link between ISMA and the LSE is expected to go live in April 1994 and Thomson expects its links with the other two to go live in August 1994.

Mr John Lambert, chairman of a group of ETC users and operations director at Schroder Investment Management, said that brokers and institutions should now feel confident to make decisions about which system is most suited to them.

## HK group buys Chinese port

By Simon Davies in Hong Kong

HUTCHISON Whampoa, the Hong Kong-based conglomerate controlled by Mr Li Ka-shing, is to dominate further China's container-terminal business by acquiring control of the port of Yantian in Guangdong province. The deal is valued at Rmb3.5bn (US\$68m).

Hutchison owns 60.5 per cent of Hong Kong International Terminals (HIT), which controls more than 60 per cent of the Hong Kong port's container throughput. The expansion into China is seen as a move to ensure the group's continued monopoly on container business within the Pearl River delta region.

Yantian, in the north-east of the colony, is the most commercially viable of the Chinese ports being developed near Hong Kong and one of only four government-designated, international deep-water ports.

HIT is the largest shareholder in a consortium composed of Cosco, the Chinese shipping group, Mitsui and Kumagai Gumi (Hong Kong). The consortium has taken a 70



Li Ka-shing: conglomerate to extend domination

per cent stake in Yantian International Terminals, funding a Rmb55bn development programme. It is constructing five 50,000-ton container berths and four general cargo berths, to be completed by the end of 1995. Last year, Hutchison bought a 50 per cent stake in Shanghai's container operations for HK\$1.4bn. It has formed a joint venture with the port authorities of Zhuhai to operate feeder facilities for Hong Kong and develop a deep water port.

## Woodside shares jump as oilfields given go-ahead

By Nikhil Tuli in Sydney

SHARES in Woodside Petroleum, the Australian oil and gas producer, jumped 7 cents to a two-year high of A\$4.07 yesterday, after the company announced the go-ahead for development of the Cossack and Wanslea oilfields on the North West Shelf, off the west coast of Australia.

Six equal partners are involved in the project - BHP Petroleum, BP Developments, Chevron Asiatic, Japan Australia LNG (MIM), Shell Development and Woodside.

The six groups are committed to spending more than A\$1bn (US\$647m) to bring the oilfields into production and construct a liquefied petroleum

gas extraction scheme around a site at the Burrup Peninsula in Western Australia.

The Wanslea oilfield was discovered in 1989, and has estimated recoverable reserves of about 200m barrels of crude oil.

The neighbouring Cossack field, which was discovered a year later, has a further 33m barrels.

The first contracts for the LPG plants are due to be awarded in November, and the plant is expected to be finished early in 1996.

The Wanslea and Cossack oil projects are due to be completed by the end of 1995, when initial production will start.

Planned peak production is 115,000 barrels a day.

## Liffe in discussions over listing for Euroyen

By Sara Webb

LIFFE, the London International Financial Futures and Options Exchange, is exploring the possibility of listing a Euroyen futures contract in order to extend its range of short-term interest rate contracts.

Liffe is discussing with the Tokyo International Financial Futures Exchange (Tiffe) the possibility of listing Tiffe's Euroyen futures contract, rather than developing its own product.

Liffe already has a link with the Tokyo stock exchange which allows it to list the TSE's Japanese government bond futures contract.

Mr Roger Barton, managing director of business development at Liffe, said preliminary research had suggested that several members of Liffe see the need for a Euroyen contract.

"A substantial number (of members) think we should list a contract which is linked into Tiffe," he said, stressing this would provide members with a product that could be traded in the European time zone.

However, some traders see little need for Liffe to list a Euroyen contract, given that the Singapore International Monetary Exchange (Simex) already lists a Euroyen contract that can be traded during the early part of the European day.

The Simex Euroyen contract is similar to Tiffe's product, but not as heavily traded. Mr Barton said the average daily volume for Tiffe's Euroyen contract is about 83,000 contracts, compared with about 12,000 for the Simex.

● The OM Stockholm and OMLX exchange in London traded 2.48m contracts in September, down from August's 2.83m but a rise of more than 20 per cent compared with September last year, Reuter reports.

The exchanges said the rise this year was fuelled by growth in Swedish bond and interest rate futures.

## Japanese carmakers agree supply deal

By Michiyo Nakamoto in Tokyo

THE DIVISION of labour within Japan's motor industry gathered pace yesterday as three car manufacturers announced plans to supply each other with vehicles for the domestic market.

The moves are to allow the companies to maintain product ranges while reducing development costs.

Nissan, Japan's second-largest carmaker, will supply Fuji Heavy Industry, maker of Subaru cars, with vans from early next year. Nissan will also supply Mazda with vans and estate cars, but in return buy vans and trucks from Mazda.

Nissan will provide Fuji

Heavy with 200 vans a month. Fuji will terminate production of its Subaru Leone van, now running at about 200 a month.

Nissan will supply Mazda with 1,400 vans and estate cars a month, for sale under the Mazda Familiar marque in the Japanese domestic market.

Mazda will stop producing its Familiar vans and wagons for the domestic market, but continue to manufacture the vehicles for export.

The moves, which follow an agreement between Honda and Isuzu earlier this year to supply each other with vehicles, reflect the efforts of Japanese carmakers to survive one of the worst recessions in the industry by reducing development costs for less successful

models. The industry has seen weak demand for three consecutive years, while the yen's appreciation has hurt the price competitiveness of Japanese carmakers abroad.

Mazda has not been as successful with its smaller vans and estate cars sold under the Familiar marque. It produces less than 2,000 of these vehicles a month, and announced recently that it will close one production line where it manufactures the Familiar vans and estate cars.

Nissan will also stop making the Vanette van and truck from early next year, when it will replace those models with products from Mazda.

The vehicles have been manufactured at a Nissan subsid-

iary in which Nissan has a 33 per cent stake, but the company has seen production of these models fall from a monthly average of 2,800 last year to 2,440 a month in the first eight months of this year.

Nissan said that it was reviewing models which were not profitable, while Mazda noted that it would be more cost-effective for it to buy the vehicles from Nissan than continue developing them itself.

Part of Nissan's supply to Mazda will come from Nissan's facility in Mexico, where it recently increased capacity. The company expects to ship 1,500 vans a month from Mexico and increase that number after several years to about 30,000 to 35,000 units a year.

## Mitsubishi Petrochemical sees loss

## NEWS IN BRIEF

MITSUBISHI Petrochemical expects to post a pre-tax loss for the six months which ended in September, the group's first deficit since 1982, Reuter reports from Tokyo.

The size of the expected loss was not spelled out, but a spokesman said the company is planning to issue a downward revision of its earnings outlook early next week.

The company said that the announcement would also clarify if there will be an interim dividend.

Mitsubishi Petrochemicals had been expecting to pay a dividend of between Y4 and Y8 a share for 1993-94.

Like other companies in its industry, Mitsubishi Petrochemical has suffered from the decline in petrochemical sales during the economic slowdown.

● Mitsubishi Rayon plans shortly to announce revisions to its forecasts as the six-month results are likely to deviate more than 30 per cent from earlier estimates. These suggested that the group was heading for a Y800m (67.6m) parent net profit in the six months ended September, against Y1.28bn a year earlier.

## Energy Direct gains NZ SE listing

ENERGY Direct, the Wellington gas and electricity utility,

## Foreigners hold more Danish bonds

BONDS listed on the Copenhagen Stock Exchange held by foreign investors rose in the second quarter of 1993 by 16.3 per cent to Dkr250bn (\$38bn) compared with the first quarter, AP-DJ reports from Copenhagen.

Rising bond prices boosted the total value of circulating bonds by 8 per cent, or Dkr84m, compared with the first quarter, of which new bonds introduced on the stock exchange accounted for some 2 per cent of the increase.

The share giveaway follows a privatisation direction from the government for the former division of the state-owned Electricity Department.

## Japanese to control Italian fashion house

ITOCHU and Coronet, two Japanese trading houses, are to take full control of Mila Schon, the Italian fashion house, Reuter reports from Tokyo.

In 1988, Itochu and Coronet purchased 40 per cent of Mila Schon. The Italian company has asked the Japanese groups to buy more shares due to financial problems at Mila Schon, a spokesman said.

The trading houses have set up a 50-50 joint investment company, MS Investment SRL, in Milan to purchase most of the outstanding shares in Mila Schon.

## Seiko Epson reduces PC production

By Michiyo Nakamoto

SEIKO Epson, the Japanese electronics maker, is to stop manufacturing PCs for overseas markets as a result of severe price competition.

Seiko said that it is halting production of IBM-compatible PCs at its US and Singapore facilities and will meet overseas demand through OEM purchases from PC makers in Taiwan. In an OEM purchase a company buys a product from an outside manufacturer which it sells under its own brand name.

Price competition in the world PC market has hurt Seiko badly and the company saw production in the US fall to less than a third of its peak of 600,000 in 1989.

Seiko's US facility has been transformed into a base for the production of printers, and the number of employees there has been halved to about 500.

A facility in Singapore where the company manufactures PCs will now make PC peripherals.

Seiko said that fierce price competition was the main factor behind its decision which will allow it to reduce fixed costs substantially.

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

September 24, 1993



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Price: \$16.25 Per Share

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Nomura International PLC		Sarasin International Securities Limited
ABD Securities Corporation	Advest, Inc.	William Blair & Company
First Albany Corporation	Furman Selz	Gruntal & Co., Incorporated
Howard, Weil, Labouisse, Friedrichs	Incorporated	Ladenburg, Thalmann & Co. Inc.
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Floating Rate Subordinated Notes due 2004

Notice is hereby given that for the six months interest period from October 4, 1993 to April 5, 1994 (183 days) the Notes will carry an interest rate of 6.2125%. The interest payable on the relevant interest payment date April 5, 1994 will be £3,114.76 per £100,000 denomination.

By: The Chase Manhattan Bank, N.A.  
London, Principal Paying Agent

October 6, 1993



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Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 30 January, 1994 has been fixed at 7.1625% per annum. The interest payable for each three month period will be £CU 2,830.00 per £CU 100,000 Floating Note, on 30 January, 1994, against presentation of Coupon No 4.

Union Bank of Switzerland  
London Branch, Agent Bank  
1st October, 1993

## MEDIOBANCA

BANCA DI CREDITO FINANZIARIO S.p.A.

HEAD OFFICE: VIA FILODRAMMATICI 10, MILAN, ITALY

PAID-UP SHARE CAPITAL: LIT. 340 BILLION; RESERVES LIT. 2,143.7 BILLION

## Notice of Ordinary and Extraordinary General Meeting

Notice is hereby given that an Ordinary and Extraordinary General Meeting of Mediobanca will be held at the Company's Head Office in Via Filodrammatici 10, Milan, Italy, at 10.00 a.m. on 28th October 1993 in the first instance, and any adjournment thereto at the same time and place on 29th October 1993, to transact the following business:

## Ordinary Business

- 1) The Accounts for the year ended 30th June 1993, the Directors' and Statutory Auditors' Reports and resolutions thereon
- 2) Election of Directors.
- 3) Appointment of Auditors pursuant to Presidential Decree 118/75.

## Extraordinary Business

- 1) Proposal to increase the Bank's share capital from Lit. 120,000,000,000 to Lit. 170,000,000,000 by a bonus issue and from Lit. 170,000,000,000 to Lit. 220,000,000,000 by a rights issue to include a premium and to amend Article 4 of the Articles of Association to such effect.
- 2) Proposal to amend Article 3 and 10 of the Bank's Articles of Association.

Under Article 8 of Mediobanca's Articles of Association, shareholders who have at least five days prior to 28th October 1993 lodged their shares at the Company's Head Office or at any Branch Office of Banca Commerciale Italiana, Credito Italiano, Banca di Roma or at Monte Titoli S.p.A. (in the case of shares managed by it) shall be entitled to attend the meeting on presentation of an admission ticket.

P.F. the Board of Directors  
the Managing Director



## Firm demand for emerging market Euroconvertibles

## BENCHMARK GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS						
	Coupon	Red Date	Price	Change	Yield	Week ago
ITALIA	9.500	08/03	120.0504	-	5.69	8.69
FR	8.000	03/03	111.4560	+0.250	7.28	7.32
IR	7.500	12/03	103.4850	-0.166	7.01	6.98
PRK	8.000	05/03	109.8000	+0.375	6.61	6.66
E	5.750	11/09	100.8917	+0.131	5.54	5.51
B	6.750	10/08	105.4200	+0.250	6.01	6.03

	10.000	08/03	108.9200	-0.955	8.12†	9.37
No 119	4.800	06/99	107.8325	+0.309	3.16	3.31
No 157	4.500	06/03	105.1140	-0.185	3.78	3.88
ISLANDS	7.000	02/03	107.6900	+0.210	5.90	5.94
	10.900	06/03	111.2500	+0.600	8.86	9.10
IS	7.250	03/98	103-24	-3/82	6.27	6.30

	8.000	08/08	107-31	+492	8.95	6.93
	8.000	10/09	118-04	-172	7.22	7.28
ASURY *	5.750	08/03	103-08	-332	5.33	5.27
	0.250	08/23	101-16	-732	8.00	5.98
pling (Govt)	8.000	04/03	102.2000	+0.300	6.68	6.64

closing, \*tentative New York morning session      Yields: Local market  
annual yield (including withholding tax at 12.5 per cent payable by non-resident)  
US, UK in 32nds, others in decimal      Technical Data/ATLAS Prices

Treasury prices were      Russia apparently se  
at the long end but      attention specifically

ly weaker at the short of the maturity range yesterday morning as dealers and investors awaited Friday's payment figures. In the midday the benchmark week's important September employment report, which provide the market with most up-to-date view of the market conditions in the struggling economy.

the government bond was at 103%, yielding 5.983 per cent. At the short end of the spectrum, the two-year note was at 100 $\frac{1}{4}$ , to yield 3.825 per cent.

**INTERNATIONAL  
EQUITY ISSUES**

Hong Kong issuers have been the most active, raising about \$1.5bn, followed by Thailand.

about \$1.3bn, followed by Thai companies with just under \$600m. South Korean, Taiwanese and Indian companies have also made an appearance.

International investors have been keen to buy these issues so that they can obtain exposure to some of the world's faster-growing economies. At the same time, they are pro-

The relatively high yield on

The two main advantages from the issuers' point of view

ers warn that any attempt to force investors to pay unrealistic prices could spoil the party for everyone. "The market will be the arbiter," says a senior investment manager at a major U.S. investment bank. "If the market is not willing to pay a reasonable price for a company, it is not a good company."

Investor demand has reached such a pitch that last week's issue for Guangzhou Investment

Investment Company, the Hong Kong-listed vehicle for southern China's wealthiest city, was eight times oversubscribed.

As a result, the five-year issue, lead managed by Morgan Stanley, was increased by \$30m to \$105m. The issuer also achieved an impressive cover

achieved an aggressive conversion premium of 34.6 per cent and a coupon of 4.5 per cent, at the low end of the 4.5 per cent to 5 per cent range.

The bonds were launched at par but were trading at 104% yesterday. Morgan Stanley said the bonds' rapid rise reflected the demand across the globe

for high-quality convertible  
paper as well as news that

## LIFFE EQUITY OPTIONS

BAT North (1986)	480	22½	36½	-	11	16½	-	Loarrie (1986)	120	13	17½	20	8½	10½
	473	11	23	-	25½	32	-		130	8	13½	15½	10½	18½
STR (1979)	380	27	39	39½	4	9	13	Red Power (1986)	380	20½	30	36½	12	17½
Sat Telecom	380	8	17½	22	16½	22½	28		450	7½	18	22½	30	33½
	420	38	33	40	4½	12	14½	Black Power (1986)	380	42	40½	46½	3	7
									380	15½	21½	28	12½	19

Western Sch (1457)	480 483	8 3	12 $\frac{1}{2}$ 14	19 $\frac{1}{2}$ 18	23 $\frac{1}{2}$ 30 $\frac{1}{2}$	24 26 $\frac{1}{2}$	34 35 $\frac{1}{2}$	Sears (1114)	170 120	8 $\frac{1}{2}$ 4	12 7	13 8 $\frac{1}{2}$	14 10 $\frac{1}{2}$	12 8 $\frac{1}{2}$
Eastern Elec (560)	550 800	24 44	36 44	44 21	48 43	10 $\frac{1}{2}$ 50 $\frac{1}{2}$	21 53	Porte (232)	220 240	29 10 $\frac{1}{2}$	29 $\frac{1}{2}$ 18 $\frac{1}{2}$	32 22	7 18 $\frac{1}{2}$	11 $\frac{1}{2}$ 21 $\frac{1}{2}$
Continental	380	39 $\frac{1}{2}$	51	58 $\frac{1}{2}$	4 $\frac{1}{2}$	11	17	Tarmac (140)	136 156	14 5 $\frac{1}{2}$	18 10 $\frac{1}{2}$	21 $\frac{1}{2}$	23 19 $\frac{1}{2}$	28 22 $\frac{1}{2}$
								Three Star	960	43	55	78	98 $\frac{1}{2}$	44

	1976					1983				
SEC	453	18	32 $\frac{1}{2}$	37	123	500	50	38	44	100
[SEC]	390	18	34	30 $\frac{1}{2}$	8 14 $\frac{1}{2}$	193	18 $\frac{1}{2}$	38	51 $\frac{1}{2}$	96 71 $\frac{1}{2}$
	380	4	11 16 $\frac{1}{2}$	28 32 $\frac{1}{2}$	34 $\frac{1}{2}$					
Harrison	280	11	16 $\frac{1}{2}$	18 $\frac{1}{2}$	6 $\frac{1}{2}$	188	15	20 $\frac{1}{2}$	24 $\frac{1}{2}$	71 $\frac{1}{2}$ 14 $\frac{1}{2}$
[SEC]	390	8	7 $\frac{1}{2}$	10 $\frac{1}{2}$	18	224	6 $\frac{1}{2}$	11 $\frac{1}{2}$	15 $\frac{1}{2}$	20 26
Laureo	130	14 $\frac{1}{2}$	20 $\frac{1}{2}$	23	4	10 $\frac{1}{2}$	220	28 $\frac{1}{2}$	30 $\frac{1}{2}$	38 $\frac{1}{2}$ 4 $\frac{1}{2}$ 8 $\frac{1}{2}$
					8 10 $\frac{1}{2}$	[SEC]	240	13	16 $\frac{1}{2}$	34 $\frac{1}{2}$ 13 17 $\frac{1}{2}$
						Vital Roots	80	15 $\frac{1}{2}$	-	- 8 -

(138)	140	84 <sub>2</sub>	15	18 <sub>1</sub>	8	13	18	(598)	70	10 <sub>1</sub>	—	—	11 <sub>1</sub>	—
Luxon	140	18 <sub>1</sub>	23	21 <sub>1</sub>	34 <sub>2</sub>	7	8 <sub>1</sub>	Welcome	650	68 <sub>1</sub>	87	58 <sub>1</sub>	21	31
(185)	160	4	11	14 <sub>1</sub>	13	17	20 <sub>1</sub>	(607)	700	38	60	72 <sub>1</sub>	43 <sub>1</sub>	55 <sub>1</sub> 6
P & O	550	28 <sub>1</sub>	48 <sub>1</sub>	54	14	24	31 <sub>1</sub>	Option						
(599)	900	84 <sub>2</sub>	24	32 <sub>1</sub>	48 <sub>1</sub>	83	58 <sub>1</sub>	Shaw	680	40	68 <sub>1</sub>	—	35	55
Pinlington	140	18	18 <sub>1</sub>	22 <sub>1</sub>	4	8	11	(650)	700	22 <sub>1</sub>	48	—	68 <sub>1</sub>	35 <sub>1</sub>

150)	180	8	10 $\frac{1}{2}$	12 $\frac{1}{2}$	14	18 $\frac{1}{2}$	22 $\frac{1}{2}$	HSC 79y see	700	55	80	-	18 $\frac{1}{2}$	40 $\frac{1}{2}$
Prodromal	230	31	40	43	5 $\frac{1}{2}$	8 $\frac{1}{2}$	12	(730)	730	30 $\frac{1}{2}$	53	-	43	68
(356)	360	11 $\frac{1}{2}$	21 $\frac{1}{2}$	25	13	16	18 $\frac{1}{2}$	Reusers	1800	84	111	-	43 $\frac{1}{2}$	78
								(1525)	1550	87	91 $\frac{1}{2}$	-	97 $\frac{1}{2}$	103
								Option		Dec	Feb	May	Dec	Feb 3
RTZ	850	41 $\frac{1}{2}$	58 $\frac{1}{2}$	67	10 $\frac{1}{2}$	19	25 $\frac{1}{2}$							
(676)	700	14 $\frac{1}{2}$	32	41 $\frac{1}{2}$	28	44	50 $\frac{1}{2}$	Roll-Royce	180	41 $\frac{1}{2}$	191	27 $\frac{1}{2}$	171	6
Redwood	590	33	50	59 $\frac{1}{2}$	13 $\frac{1}{2}$	24	39	(156)	180	11 $\frac{1}{2}$	18 $\frac{1}{2}$	26	19 $\frac{1}{2}$	1

1965 )	600	10½	27	35½	43	60½	60
Royal Inco	300	60	55½	-	1	1½	-
1967 )	330	31	40	-	2½	6½	-

BURN FT-SE INDEX ('3100)							
1966 1967 1968 1969 1970 1971 1972 1973							
Steel & Wire	444	34	-	-	4½	-	-
1969 )	482	11½	-	-	2½	-	-
Textco	200	18½	22	27	5	10½	12½

CALLS							
Oct	174	125	76½	38	12	2½	1
Nov	187	144	105	71½	45½	26½	14

(208)	226	8	13 $\frac{1}{2}$	17	18	21 $\frac{1}{2}$	24 $\frac{1}{2}$	Dec	816	187	126	66 $\frac{1}{2}$	43 $\frac{1}{2}$	37
Vodofone	509	37 $\frac{1}{2}$	50	84	12	24	30	Mar	245	-	172	-	114	- 89
(521)	550	13	28 $\frac{1}{2}$	39 $\frac{1}{2}$	39	51	58	Jun †	570	-	203	-	147	- 108
Williams	300	31	39	42 $\frac{1}{2}$	3	7 $\frac{1}{2}$	13	PITS						
(323)	330	11	21	28	14 $\frac{1}{2}$	20 $\frac{1}{2}$	27 $\frac{1}{2}$	Ocr	2 $\frac{1}{2}$	4	5 $\frac{1}{2}$	16	40 $\frac{1}{2}$	78 $\frac{1}{2}$ 128 1
Options								Nov	6 $\frac{1}{2}$	12	23	38 $\frac{1}{2}$	63	93 $\frac{1}{2}$ 130 1
								Dec	20	26 $\frac{1}{2}$	37 $\frac{1}{2}$	53	73 $\frac{1}{2}$	100 133

BAA ('88)	850	40	51 1/2	68 1/2	4	25 1/2	22 1/2
	900	15	26 1/2	40 1/2	52 1/2	58 1/2	
Transit Wt	500	53 1/2	58 1/2	64 1/2	2 1/2	7 1/2	
(548)	850	15 1/2	23 1/2	33 1/2	18	25 1/2	30 1/2

Mar 41 1/2 - 68 - 105 - 157

Jun 1 68 - 87 - 127 - 177

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FT-GE INDEX ('2004)

2000 2950 3000 3050 3100 3160 3200 3

Option	Dec	Mar	Jun	Dec	Mar	Jun
CALLS	200	150	100	50	20	5

Booye Head	426	23	34½	28	11½	21	24½
"(429)	460	7½	15	21½	2	21	48½
Hemstead	48	7	8 10½	3	4½	5½	
"(48)	30	4	8½	8	5½	7	8
Bardley	500	56	68½	73	5	12½	15½
"(540)	550	25	35½	42½	22	31½	36½

PUTS							
Oct	1½	2	3	9 26½	66	116	1

Blue Circle	280	194	294	324	12	18	38
283	300	104	194	24	294	374	
British Gas	300	314	36	384	4	7	12
285	330	9	184	214	154	194	264
Oboms	280	19	384	334	144	214	25
282	380	104	18	244	28	334	384

Nov 7/2 13 19 324 534 81 118 1  
 Dec 16/2 22 31 45 68 92 108 1  
 Jan 24 334 454 614 814 107 130 1  
 Jan † 54 - 84 - 123 - 176

December 6 Total Chances 48,712  
 Calls 24,792 Puts 21,920  
 62-SF Index Calls 4,128 Puts 11,532

Syrtunnel	500	43	-	-	32	-	-
'505 I	550	21 $\frac{1}{2}$	-	-	83	-	-
Lidabrown	140	22 $\frac{1}{2}$	24 $\frac{1}{2}$	25	23	5 $\frac{1}{2}$	9 $\frac{1}{2}$
'159 J	160	7 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	11 $\frac{1}{2}$	14 $\frac{1}{2}$	21

\*Underlying security price. †Long dated expiry mths.  
Equity premiums are based on closing offer prices.  
Index options are settlement prices.

### DIG FIVE INDEX INTEREST INDICES

			AVERAGE GROSS REDEMPTION YIELDS	Tue Oct 5	Mon Oct 4	Year ago (approx)
			British Government			

	Interest	1993 to date				
1	Low	5 years	6.34	6.26	9.1	
2	Coupons	15 years	7.07	7.08	9.1	
3	(0%-7 1/2%)	20 years	7.18	7.21	9.1	
4	Mortgage	5 years	6.49	6.51	8.1	
5	Coupons	15 years	7.21	7.22	9.1	
6	(0%-10 1/2%)	20 years	7.28	7.29	9.1	

22	2.08	10.12	7	High	5 years	8.68	8.70	8.71
50	1.43	9.70	8	Corporate	15 years	7.43	7.46	9.10
57	3.62	8.83	9	(11%)	20 years	7.45	7.47	9.10
59	2.81	8.67	10	Indeemables (Flat Yield)		7.33	7.37	9.10
				Index-Linked				

45	0.07	4.28	11	Inflation rate 5%	Up to 5 yrs.	2.53	2.53	2.53
82	0.85	3.89	12	Inflation rate 5%	Over 5 yrs.	3.13	3.18	4.1
10	0.77	3.92	13	Inflation rate 10%	Up to 5 yrs.	1.74	1.74	2.1
			14	Inflation rate 10%	Over 5 yrs.	2.97	3.00	4.1
			15	Debt & interest	5 years	7.78	7.85	10.1
					15 years	8.12	8.16	10.1

0.07	1.98	8.81	18	17	25 years	8.27	8.28	10.00
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## COMPANY NEWS: UK

# Raine cuts dividend despite rise to £10.8m

By Richard Gourlay

RAINE, the housebuilder and contractor, made a greater than expected cut in its final dividend yesterday after reporting a modest 8 per cent increase in pre-tax profits.

The group is paying a 1p final dividend from 4p, halving the total for the year to the end of June to 3p.

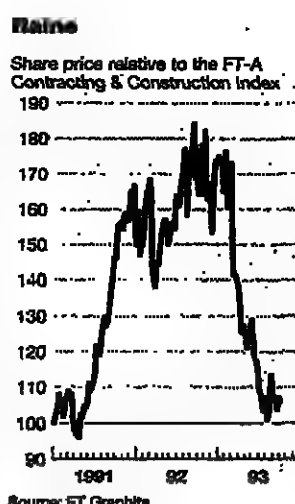
Earnings per share increased from 3.73p to 4.34p, but this included an exceptional gain of £3.42m, mainly from foreign exchange gains and a £2.1m provision for closure of its Plumb joinery operation.

Raine's shares fell only 8p to 84p on the unexpectedly large dividend cut. But the shares are now 12 per cent below the 95p rights issue price in March 1992 when Raine paid £3.5m in shares for Walter Lawrence.

The profits increase from £10m to £10.8m came on sales up 23 per cent at £146m. The group also made a further £3.5m provision - directly against reserves - to cover a reduction in value of land bought in Kent and Hampshire as part of the Walter Lawrence acquisition.

Strong cash generation, partly from sale of stock acquired with Walter Lawrence, helped reduce gearing from 35 per cent to 22.3 per cent on net debt of £26.3m.

Mr Peter Parkin, chairman,



Mr Parkin said West Venture, which is tying up \$57m (£38m) of gross assets, was up for sale but that there was no pressure for a quick sale.

## COMMENT

Raine's greater than expected dividend cut is hardly surprising. Underlying earnings stripped of such fancies as the unrepeatability of foreign exchange gains just cover the new total of 3p, giving the group a sound base from which to resume dividend growth in a couple of years. But there was much in yesterday's results to explain why Raine trades at a discount to its peers. There is, so far, little sign of additional profits from the Walter Lawrence acquisition 18 months ago - and the group made further provisions against the value of the business, bypassing the p&id account to boot. There was also the foreign exchange gain that had little to do with cash or profit. Nor is Raine as pure a UK housing play as Barratt or Wimpey, weighed down as it is by its contracting side, and its distant Californian business. Add to that the fact that like other housebuilders, Raine is hostage to a good budget in November - in its terms, few VAT increases and further cuts in interest rates - and Raine at a prospective multiple of about 20 on pre-tax profits this year of £13m, deserves to be approached with some caution.

said housebuilding was becoming an increasingly important part of group profits. The group increased the number of homes built from 2,442 in 1992 to 3,337 and had enjoyed an increase in visitor and reservation levels in the spring.

Mr Parkin said economic conditions for West Venture, the southern Californian housebuilding business, were similar to those in the UK but without the benefit of the increased spring activity.

With no sign of economic recovery in southern California, "profit margins may come under increasing pressure," he said.

## Johnston cuts loss to £393,000

By Jean Marshall

REDUCED pre-tax losses of £393,000 were announced by Johnston Group, the construction and engineering concern, for the half year to June 30. Losses of £785,000 were reported last time.

Turnover increased to £54.2m (£58.4m) including £3.5m from the sale of a development property at Esher, Surrey.

Mr Graham Johnston, chair-

man, said the UK construction side suffered from reduced volumes and severe price competition, resulting in "significant losses".

In the engineering division, the road sweeper manufacturing companies suffered a small deficit, largely because of losses in the Californian business acquired in April 1992.

Mr Johnston said that changes were in hand which would improve the US perfor-

mance. Cost savings, however, had enabled Johnston Engineering in the UK to improve results and the construction materials division had shown "a considerable increase in profits".

The result benefited from a fall in interest charges to £283,000 (£779,000).

Losses per share were reduced to 4.62p (7.52p). The interim dividend is cut to 1p (2.95p).

## Mercury Asset has 9.65% of Zeneca

By Norma Cohen and Maggie Urry

MERCURY Asset Management, the investment management company controlled by SG Warburg, has built up a 9.65 per cent stake in Zeneca, the pharmaceuticals company spun off from Imperial Chemical Industries last June.

Warburg advised Zeneca on its demerger from ICI and its £1.3bn rights issue in June.

Yesterday, Warburg disclosed that it and MAM together owned 10 per cent of Zeneca's shares, triggering a notification requirement to the Stock Exchange under new Companies Act rules which took effect on September 18. Up until then, institutions had to notify the Exchange when they held voting rights of 3 per cent or more of a company's shares.

MAM said that since the flotation it had been building the stake on behalf of clients. But because its policy was not to seek voting rights from the clients whose money it managed, there had been no need to notify the Exchange.

Meanwhile, it emerged yesterday that the amendment to the Companies Act had several drafting errors in that exemptions from notification requirements should have been included for authorised members of investment exchanges, such as Warburg. Had the rule been properly drafted, Warburg would not have needed to make its announcement yesterday.

The Department of Trade and Industry said that amendments to correct the omissions were expected to be submitted to parliament shortly.

Warburg said that of the 94.5m shares, only 3.3m, or 0.35 per cent of Zeneca's issued equity, was held by non-MAM parts of the group.

At yesterday's closing share price of 787p, a rise of 8p, Warburg's holding is worth £297m.

## Risky changes for a secure future

Alan Cane reports on the new strategy being pursued by Amstrad

MR ALAN Sugar, Amstrad's colourful chairman and chief executive, was in the City yesterday to give analysts the chance to quiz him on the company's 1992-93 trading figures.

An unusual move, he traditionally demands they trek out to his stronghold in Brentwood, Essex.

But anybody hoping that the irrepressibly combative entrepreneur had been chastened by last year's trading loss and the rejection by shareholders of his 30p a share plan to buy back the company would be disappointed.

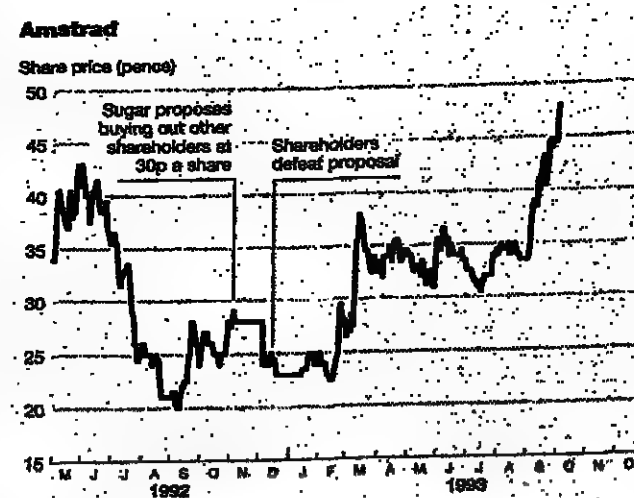
He was in London to donate a new operating theatre to Great Ormond Street Sick Children's Hospital. "Otherwise it would be Brentwood as usual," he grunted.

Nothing, however, is going to be "as usual" at Brentwood for the foreseeable future. Amstrad is set on a series of changes designed to secure its future but which are, also, in Mr Sugar's opinion, the riskiest of the options open to it.

They include the appointment of a chief executive to oversee a series of acquisitions to take Amstrad into new growth areas, attempts to forge alliances with services companies to secure more dependable revenue streams and a gradual move away from reliance on personal computers which have been Amstrad's biggest money spinner in recent years.

The new strategy arises out of Mr Sugar's argument that Amstrad's core businesses - personal computers, facsimile machines, video recorders and satellite dishes - can produce £15m-£20m a year in pre-tax profits, but not a lot more.

Yesterday's results, showing a £16.3m operating profit including interest, are his evidence.



denote: "It is a mature business that we are in. It is highly competitive. The day of the blockbuster product seems to be over - although if one comes along, we are not going to turn it away."

"We have to glue on to the core business other businesses that have a synergy with electronics, electrical goods and so on."

Hence the need for a chief executive. Mr Sugar has no liking for the notion of running a group of 30 or so separate autonomous companies: "It would be very boring. What we need is a chief executive whose qualities lie in these areas."

"We have to have a management capable of looking after all these companies. We've seen the fallen idols of the 1980s: all those people who bought companies one after the other. The only people who seemed to make any money out of it were the lawyers and the merchant bankers."

He points to DanCall Radio, the digital telecommunications company which Amstrad bought last month as an opportunistic deal. Tipped off that the company was for sale by a mutual supplier, Sugar bought the loss-making Danish concern for \$6.6m. It gave Amstrad cheap entry to a complex and potentially lucrative technology.

"When we bought the company we bought a lot of inventory and we will churn and turn that into cash and that cash will be used to run the company. The fruits of what is about to start now will be seen in a year to 18 months time when the new digital telephones start to roll off the line."

Mr Robert Watkins, who was identified with many of Amstrad's earlier blockbusters but left to work for Bionote last year, has been lured back as managing director of DanCall.

The main shift, however, is in Mr Sugar's thinking on product strategy. He is clearly

irked that markets which Amstrad pioneered - compact audio systems, inexpensive personal computers and satellite phones - have been hijacked by competitors prepared to lower margins.

He has no doubt that Amstrad can build, for example, a competitive cellular telephone. "It will not be long before the rest of the world catches up. So we have to find ways to make sure that when we create things, we can hold on to it a little longer."

His idea is to strike a deal with cellular service providers, in exchange for a lower-cost handset than they are able to supply at present he will claim some form of commission on the use of the service. Customers in the UK, for example, buy a digital handset for £360-£400. The cost is subsidised by more than £100 by a service provider like Mercury One2One. While nothing has yet been decided, according to Mr Sugar, it will only make commercial sense for a service provider to pay a small commission to reduce or eliminate the subsidy.

Cellular experts agree that Mr Sugar's strategy makes sense. While they question whether he has not left it too late they agree that the DanCall acquisition must have saved several years of basic research.

Would he be following the same strategy today if his attempt to take the company private last year had been successful? "No. The contraction I had in mind was the safest approach for Amstrad. One that could not go wrong. That is not good enough for shareholders. There is no guarantee of success in the route we are following now but it is the only way to try to find a stream of profits."

## Shell/BP in \$1.2bn oil and gas venture

By Richard Waters in New York and Robert Corzine in London

SHELL OIL and BP said yesterday they would spend \$1.2bn (£790m) to develop the largest oil and gas discovery in the Gulf of Mexico for the past 20 years.

The field, known as Mars, was discovered in 1986. It will mark the site of the deepest platform in the Gulf at 2,935ft when production starts towards the end of 1994.

Shell Oil, the US subsidiary of the Royal Dutch/Shell group, will have a 71.5 per cent interest in the development and bear a similar proportion of the costs, with BP Exploration of the US representing the remaining 28.5 per cent.

For Shell Oil the development, 130 miles

off the Louisiana coast from New Orleans, will mark a significant addition to production.

The first phase of development is expected to yield 500m barrels of oil equivalent, with a further 200m barrels potentially available in later stages of development. The company's total proven reserves at the end of 1992 amounted to just under 2bn barrels.

At its peak around the year 2000, Mars is expected to produce 100,000 b/d, not far short of the total 138,000 b/d that Shell currently produces in the Gulf of Mexico. The development is also expected to produce 110m cu ft of natural gas a day.

Deep-water sites in the Gulf of Mexico have become a focus for US exploration and development as companies apply new

seismic and production technology to the area. Mr John Browne, BP's London-based exploration chief, said the tension-leg platform technology used in the Mars project will, for example, "have valuable applications both elsewhere in the Gulf of Mexico and in other parts of the world."

Although many US-based companies are investing heavily in long-term exploration elsewhere, the application of new technology has made the Gulf of Mexico a more immediate and accessible source of new production from proven reserves.

BP has sold its interests in the El Gargal gas field in the Nile Delta concession about 100 miles north of Cairo to Amoco, the US company announced in Chicago yesterday. The price was understood to be about \$50m.

## Netherlands expansion by IWP

By Tim Coone in Dublin

IWP, the Dublin-based industrial holding group, has announced the acquisition of Levendaal Beheer, a Dutch toiletries and household products manufacturer from P.L.A., a Netherlands Antilles company, in a cash and shares offer worth £251.2m (£48.8m).

The deal is expected to boost turnover to about £150m and pre-tax profits by more than 50 per cent to about £20m in a full year.

Mr Joe Moran, the executive chairman, said the acquisition "is a very important one in terms of strengthening our customer base, product portfolio, increasing market share, and developing the group's strategy".

IWP has refocused its activities into two core areas in the past few years, chemically-based household products and printed cartons and self-adhesive labels. Its main markets are the UK, Ireland and the Netherlands.

The acquisition will make the Netherlands an increasingly important profit centre for the group, which already has three of its 18 companies there.

The consideration will be satisfied by £231.5m in cash and £19.7m from the sale of a loan note. The vendor will also receive a dividend from Levendaal of £1.52m and £13.2m for its holding of preference shares in Levendaal, which are being sold to a syndicate of Dutch institutions. Mr Moran said

that IWP intended to buy these shares at a rate of 25 per cent per year.

There is also to be a placing of 1.35m ordinary shares in IWP at 315p raising £424m, to help finance the deal.

In 1992 Levendaal reported turnover of £111m (£40m) for pre-tax profits of £16.3m. IWP said that the results for the first seven months of 1993, showing pre-tax profits of £18.7m "are ahead of the budget set by the management of Levendaal".

On completion of the acquisition, which has to be approved by an extraordinary meeting of IWP to be held on October 28, Mr Moran will join the board of Levendaal, but the existing management will continue in place.

## Whyte & Mackay talks continue

Whyte & Mackay, the UK drinks subsidiary of American Brands, is continuing talks with Fleming Investment Management about the possible acquisition of Fleming's 18.5 per cent stake in Invergordon Distillers.

A joint statement last night confirmed that "discussions are taking place which may or may not lead to the sale by clients of Fleming Investment Management, including Fleming Mercantile Trust, of the whole of their holdings... to Whyte & Mackay."

The statement said that acquisition of the shares by W&M, which already holds 41 per cent of Invergordon, would result in a mandatory offer for the remainder of Invergordon's share capital.

All of these Securities have been sold. This announcement appears as a matter of record only.

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October 1993

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**RAINE**

**RESULTS FOR THE YEAR ENDED 30 JUNE 1993**

	1992	1993
Pre-tax profits	£10.8m	£10.0m
Earnings per share	4.3p	3.7p
Dividend per share	1.0p	6.0p
Net assets per share	62.6p	62.9p

"I believe that the process of economic recovery in the United Kingdom has begun and, if maintained, I am confident that the Group can look forward to a period of sustained, profitable growth."

From its new recommended total dividend level of 3p per share, the Board expects to reinstate a progressive dividend policy.

Looking to the longer term, I know that the Group is properly structured, professionally managed and correctly positioned to take full advantage of business opportunities as they arise."

P W Parkin, Chairman



# Diversity of operations helps overcome difficult conditions

## James Halstead rises to £8.7m

By Peter Pearce

JAMES HALSTEAD, the Manchester-based floor-coverings, weatherproof clothing and trailers group, more than doubled pre-tax profits in the year to June 30, though the rise was flattered by the adoption of FRS 3 accounting standards.

Profits grew to £8.7m, against a restated £3.84m, affected by closing the £4.2m costs of bringing the Belstaff operations above the line. The group said that the operating profits before interest, which rose by 7.5 per cent to £7.88m (£7.88m), gave a true measure of the trading performance.

Turnover looked flat at £59.4m (£58.9m), but the latter included some £5m from Belstaff. Group margins were broadly maintained, said Mr Stephen Knight, finance director.

He ascribed the group's ability to overcome difficult trading conditions partly to the breadth of its operations.

James Halstead Ltd, the core floor-coverings division which accounts for two thirds of turnover, was "marking time for the first time for some time," he said.

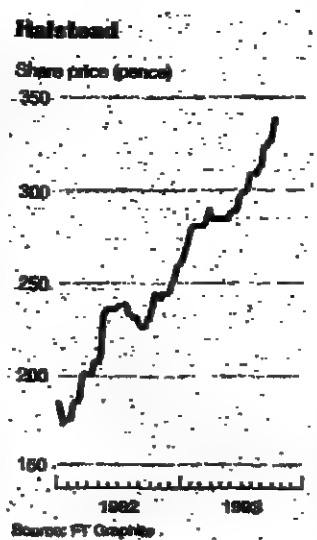
With brand leadership and dominant market share in commercial sheet vinyl flooring, he added, it was difficult in the current climate to raise sales.

Profits at Conway Products, the trailer tents, trailers and security cabins business which received an offer to buy during the year, fell in all its areas, though none will be abandoned.

Driza-Bone, the Australian stockman's coat company, did well in spite of a second consecutive rain-free winter there. However, exports now account for 30 per cent of sales.

Cash balances grew to £5.5m (£3.1m) over the year and complementary inflow acquisitions were being considered, said Mr Knight. Interest receivable fell to £45,000 (£156,000). Earnings advanced to 20.23p (8.94p) and a 4p final dividend makes 6.5p for the year - an increase of 8 per cent.

There does not seem to be too much wrong with the management, the products or the group - it has a market leading brand name in its core business and has the sense to invest heavily in that when there is no growth in the market. The benefit should accrue when the construction and refurbishment sectors are beginning to come back. Fine Conway is sufficiently highly thought of for offers to be made. Not bad. And the smaller parts of the group have sparkled. Excellent. Yet, a thought persists: is the group doing enough to exploit its brands. With almost £3m pencilled in for the current year, the p/e will be 17, highish but supported on the dividend yield.



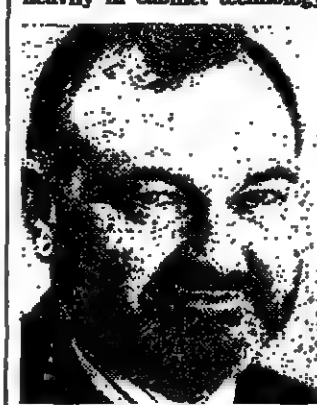
James Halstead share price (pence)  
Source: FT Compufile

## Silentnight expanding in cabinets

By Andrew Bolger

SILENTNIGHT Holdings said it continued to maintain its dominant position in the UK beds market, of which it controls more than 30 per cent, even though sales increased only marginally in the six months to July 31.

Mr Bill Davies, chairman, said the main opportunity for growth was in the rapidly-expanding cabinets business. Silentnight has invested heavily in cabinet technology



Bill Davies: investing in cabinet technology

using sophisticated printed foils, which have a similar appearance to cheaper wood veneer finishes.

These were an impressive set of results, with the core UK beds business continuing to generate cash and healthy margins in spite of a flat market. The German acquisition has also performed better than expected, even if the onset of recession suggests it may now mark time for a while. The group will also be pleased to have stopped losses at its US operation which - though never quantified - were described to analysts as "big enough to be unpleasant". However, Silentnight shares have outperformed the market by 50 per cent this year and are now trading on a prospective multiple of 20, a significant premium. The group's success in Germany, the US and with cabinets bodes well for the future, but the chairman's downbeat note on the second half would suggest the shares are up with events.

## Walker Greenbank at £3.4m as demand picks up

By Catherine Milton

INTERIM pre-tax profits at Walker Greenbank rose from £1.89m to £3.35m as demand for domestic wall coverings began to pick up early this summer followed by an increase in commercial orders.

The comparison was flattered, however, by the restatement of the year earlier figure to reflect new accounting standards. One-off items netting out to a charge of £393,000 were increased to £1.19m, mainly because of the treatment of property disposals.

Operating profits from continuing activities in the six months to July 31 rose to £2.44m (£3.38m) on flat sales of £29.5m (£29.5m).

"We definitely see a gradual underlying improvement in the UK. We see economic recovery coming through on to the bottom line," said Mr Charles

Wightman, the chief executive. He added: "The turn on the consumer side came last summer, but I think it has been particularly marked in the last four or five months. The recovery is stronger on the consumer side, but it is present in the commercial side too and it is sustained."

He believed the improved trading picture partly reflected the company's increasing market share. Walker Greenbank has about 10 per cent of the total UK market in wall coverings, but 60 per cent of the UK market for commercial wall coverings.

He said overseas sales were growing by about 30 per cent but from a low base.

The company's acquisition in April of John Hartley, the Yorkshire-based furniture upholstery fabrics company, contributed £752,000 to sales but turned in an

operating loss of £12,000. "Hartley's has now traded profitably for the last three months," Mr Wightman said. He said the company had anticipated that the £1.5m acquisition, which was funded by a £2.7m share placing, would not affect earnings per share, but now thought it might enhance earnings this year.

The placing had helped strengthened the balance sheet and interest charges dropped to £181,000 (£301,000). The company had borrowings of £2m (£6m) at the half-way stage giving gearing of 6.6 per cent (23.8 per cent). It expects to be virtually ungeared by the year end.

The interim dividend is held at 1.3p with the board aiming to reach dividend cover of 2 times. Earnings per share rose to 2.44p against a restated 1.08p.

## Change of strategy at Murray Enterprise

By Nigel Clark

MURRAY Enterprise, the investment trust, is switching its investment strategy from European unlisted securities to UK listed smaller companies.

It was also announced that Murray Johnstone had liquidated the holdings in Murray Enterprise of its other managed trusts, Murray International, Murray Smaller Markets and Murray Ventures.

The share rose 25p to 233p, reducing the discount on its net asset value which was put at 246.7p on October 4. An analyst said that as a result of the liquidation of the stakes the shares were not trading at such a large discount and this was pushing the shares higher.

Murray Enterprise forecast that it would pay a dividend for the year to September 30 1994 of not less 4p, against 1.31p last time. In addition it is planning a bonus issue of warrants for early next year.

Proposals should be ready to be put to the annual meeting.

The trusts sold their total holdings of 25.82 per cent of the ordinary shares and 44.8 per cent of the zero-coupon convertible loan stock 1994 at 222p. They were placed with institutional investors.

Murray Enterprise's existing portfolio will be liquidated when investments conditions permit, the proceeds being invested in accordance with the new policy.

Enterprise's main investments are in Fleet Call and Savoy Corporation as well as holdings in Sowater and BAA.

## Albert Fisher builds up US fresh produce side

By Andrew Bolger

ALBERT FISHER, the food processing and distribution group, has agreed to pay up to \$4m (£2.6m) for Imperial Produce, a Washington-based distributor of fresh produce and prepared salads and vegetables.

Imperial, which has annual sales of more than \$15m to food service businesses in the US capital, is the latest US acquisition by the UK group, which already has strong market positions in Florida and California.

In July Fisher paid \$4m for a Texas distributor, Mr Stephen Walls, executive chairman, said this acquisition "completed the jigsaw" in the south-east of the US.

Imperial was already well down the road of Fisher's chosen route, which was to focus increasingly on providing more profitable products - such as pre-cut salads - to customers in the catering business.

This is the latest in a series of deals by Mr Walls, who took over as chairman last year from Mr Tony Miller, who built

Fisher rapidly by acquisition during the 1980s.

In January, Fisher paid \$28m for Hunter Saphir, the fresh produce, herbs and spice company, and assumed \$9.8m of debt. In May it sold Hunter Saphir's herbs and spices business for \$25m to Burns Phillip, the Australian group.

The group also hopes to raise an estimated \$20m-£25m by this month by spinning off Charles Sidney, its Yorkshire-based Mercedes-Benz commercial and passenger car dealer, through a full stock market flotation.

Higher interest charges left A Beckman, the textile and property group, with a drop in pre-tax profits from \$905,000 to \$790,000 for the year to June 30.

Turnover advanced to £14.4m (£12.3m). Net interest payable rose to £516,000 (£429,000). The proposed final dividend is cut to 2.35p (3.15p) making 3.58p (4.70p) for the year. Earnings per share were 4.7p (5.2p).

A Beckman reduced to £790,000

## Fine Decor marginally ahead of forecast with £1.33m

By Catherine Milton

FINE DECOR Group, the wallpaper designer, manufacturer and distributor, yesterday announced interim results marginally ahead of its own forecasts made when it came to the market in June.

Actual trading figures revealed pre-tax profits of £1.33m (£971,000) for the six months ended July 31 while at the operating level there was a surplus of £1.66m (£1.32m), ahead of its prospectus forecast of £1.62m.

The board declared a 1p interim dividend, again meeting its flotation forecast, out of earnings per share of 8.1p (8.8p).

The board is maintaining its prospectus promise to recommend a total for the current year of not less than 7.5p on an annualised basis and an actual value of 4.7p.

Mr Roger Ragan, chairman, said that "the board are satisfied by the continuing trend of sales during the second half in the light of prevailing economic conditions".

Mr Ragan, who is also chairman of Spring Ram, said trading conditions in the first half had been "difficult" in the UK and elsewhere for the company, which exports to 30 countries.

Total sales rose to £19.2m (£17.7m). Exports rose 14 per cent to £7.48m (£6.56m) with "significant progress" achieved in North America.

Interest charges dropped to £233,000 (£447,000).

At the half way stage the company had net borrowings

of some \$4m for gearing of 49 per cent. This compared with net borrowings of \$9.24m and gearing of 437 per cent, reflecting the company's origins as a management buy-out.

Net cash inflows from operating activities dropped drastically to just £47,000 (£1.26m). The company said the change reflected stronger than expected sales in July which pushed up the level of debtors, a seasonal build up of stocks and the launch of some new products ahead of schedule.

DIVIDENDS ANNOUNCED					
	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Amstrad	0.3	Nov 26	nil	0.3	0.4
Barry Wehmiller	4.3	Jan 5	4.3	8.7	8.7
Beckman (A)	2.35	Jan 4	3.15	5.5	4.78
Black (A&C)	4.25	Nov 5	4.25	-	13.5
Green (James)	5.9554	Feb 28	7.855	-	12.5
Dorchester	1.81	Nov 22	1.8	-	4.6
Fine Decor	1	Nov 29	3.75	-	6
Halstead (James)	4	Dec 7	5.5	-	3.25
Johnston Group	1	Dec 15	2.25	-	3
Raine	1	Nov 25	4	-	8
Silentnight	2.75	Jan 4	2.25	-	8
Walker Greenbank	1.21	Dec 6	1.2	-	3.1

†On increased capital. \*Adjusted for scrip issue. ‡ Irish currency.

# How to repackaging an industry.

This announcement appears as a matter of record only. September 1990

**COFINEC**  
Compagnie Financière pour l'Europe Centrale

has acquired a controlling interest in

**Petőfi Printing Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

as part of the First Privatisation Program by the State Property Agency (SPA) of Hungary

This announcement appears as a matter of record only. November 1991

**Petőfi Printing Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

DM 10,000,000 Loan Facility

Provided by

**European Bank**  
for Reconstruction and Development

This announcement appears as a matter of record only. July 1992

**Petőfi Printing Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

International Private Placement of 6,046 Registered Shares of Common Stock of HUF 50,000 each

The undersigned acted as financial advisor to Petőfi on this transaction.

**Morgan Stanley International**

This announcement appears as a matter of record only. July 1993

**Petőfi Printing Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

HUF 1,350,000,000 Dividend Notes Due 1998

The undersigned acted as financial advisor and sole manager to Petőfi on this transaction.

**Credit Suisse First Boston Budapest Rt.**

This announcement appears as a matter of record only. May 1992

**COFINEC**  
Compagnie Financière pour l'Europe Centrale

and

**Hungarian Investment Company Ltd. (HICL)**

have acquired 85% of

**KNER**

**Kner Printing House Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

as part of the First Privatisation Program by the State Property Agency (SPA) of Hungary

This announcement appears as a matter of record only. February 1993

**KNER**

**Kner Printing House Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

DM 10,000,000 Loan Facility

Provided by

**European Bank**  
for Reconstruction and Development

The undersigned acted as financial advisor to Kner Printing House Co. Ltd. on this transaction.

**Morgan Stanley International**

This announcement appears as a matter of record only. February 1993

**KNER**

**Kner Printing House Co. Ltd.**  
(a company incorporated under the laws of the Republic of Hungary)

Private Placement of 27,000 Registered Shares of Common Stock of Par Value HUF 10,000 each

The undersigned acted as financial advisor to Kner Printing House Co. Ltd. on this transaction.

**Morgan Stanley International**

Four years ago Cofinec began investing in the emerging Central European markets, focusing on the packaging industry in particular. Today, in our product lines, we are the leading packaging manufacturer in Central Europe, and the eleventh largest in Europe overall, competitive with all the major players.

Recognising opportunities, finding the right companies and arranging effective finance is only part of the story. It also takes vision, committed management and the latest technology. Essential ingredients in helping the East become partners with the West.

The financings shown here represent a commitment of over US\$75 million by Cofinec and its partners to the packaging sector in Central Europe which, to our knowledge, is more than anyone else in the industry.

**COFINEC**  
Gusshausstraße 2/2, 1040 Vienna, Austria  
Tel: (43 1) 504 28 60 Fax: (43 1) 504 28 60 60



## COMPANY NEWS: UK AND IRELAND

## Barry Wehmiller rises 8%

By David Blackwell

BARRY Wehmiller International, the packaging equipment manufacturer, lifted pre-tax profits by 8 per cent, from £6.55m to £7.1m, for the year ended July 31.

Turnover of the group, which makes about half its sales in dollars, rose by more than 15 per cent from £73.7m to £85.2m. About £4m of the increase was a result of the strength of the dollar against sterling.

Mr Stewart Brown, chief executive, said yesterday that the group had benefited from its industrial and geographic spread at a time of difficult markets.

It had found new business in the Far East and Latin America to offset lower sales in its traditional European and US

markets. However, margins in the new markets were lower, while margins in Europe and the US continued to be under pressure.

Turnover in the pharmaceutical and general packaging division rose from £38.6m to £46.1m, generating operating profits of £3.5m (£2.26m). The group said that sales to the pharmaceutical and personal care markets now accounted for 33 per cent of the group total.

The vision division, which scans bottles and packages, also lifted operating profits, from £670,000 to £1.26m on turnover of £20.9m (£18.2m). Both volumes and margins had strengthened, Mr Brown said.

Operating profits at the food equipment division fell from £3.45m to £2.1m on turnover of £18.2m (£17m). Mr Brown said

the fall reflected an unprecedented low investment level from the UK dairy industry, which is undergoing a structural change with the demise of the Milk Marketing Board.

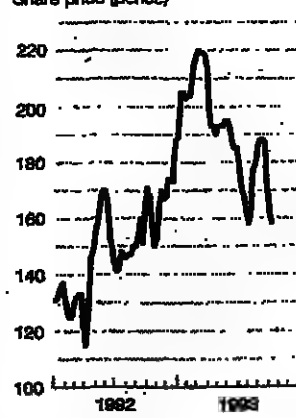
Mr Brown expected demand for capital equipment to remain slow and unpredictable in the US and Europe. Nevertheless, he felt that the last two years of consolidation were now behind the group, which has started to look for acquisitions.

Total operating profits were up from \$5.42m to \$6.8m. Net interest receivable was £279,000 (£133,000).

Net cash in hand at the year end was £3.6m, down from £4.9m last year, mainly because of exchange factors. Earnings per share rose to 11p (10.7p). An unchanged final dividend of 4.3p is proposed,

Barry Wehmiller

Share price (pence)



Source: FT Graphite

giving a maintained total for the year of 6.7p.

## Office products fall hits J Crean

By Gary Evans

A REDUCED contribution from its office products division meant pre-tax profits of James Crean, the Dublin-based industrial holding company, slipped from £27.78m to £27.68m (£27.34m) in the first half of 1993.

Sales grew 8.5 per cent to £120.9m, while earnings per share edged up to 12.8p (12.5p) because of the buy-out in January of the minority in Valley Fresh Foods and a slightly lower tax charge.

An interim dividend of 5.63p (7.86p) is declared but a final of not less than 6.86p is forecast for a maintained total of 12.5p - the directors have reiterated their policy of a progressive dividend policy.

Crean blamed a £1.1m fall to £600,000 in profits from office products on adverse market circumstances. Elsewhere, food and beverages turned in £5.6m (£4.8m). Irishtech made £4m (£3.7m) and electrical wholesaling £600,000 (£700,000).

Directors said the trading pattern had not changed materially since the end of June and with the exception of office products, all operating divisions continued to perform satisfactorily.

Market conditions are expected to remain difficult for the office products businesses for some time.

The £1.1m contributed the bulk of profits with £2m (£4.4m), helped by a more favourable dollar/punt rate. Irish profits were unchanged at £1.1m, while the European performance was lower at £4.7m (£5.4m).

Group borrowings at June 30 were £586m, against £72m at the same time last year and £70m at the year end. This represented gearing of 93 per cent, compared with 77 per cent at the year end.

Profits of TRD Group were included up to the date of disposal in June.

## Allied Irish gets £55m compensation from E&amp;Y

By Tim Coone in Dublin

ALLIED IRISH Banks, the Republic's largest clearing bank, has accepted a £55m (£56m) out of court settlement of a claim for damages against Ernst & Young, the accountancy firm.

The firm were auditors to the Insurance Corporation of Ireland which AIB had bought for £145m (£43m) in 1983. However, two years later it was put into receivership with outstanding liabilities of more than £340m.

A total of \$110m is to be paid to AIB and Iscom, formerly Insurance Corporation, divided equally between the two.

AIB's disastrous foray into the insurance business became apparent when it was discovered that there had been significant underprovisioning in

Insurance Corporation, involving a wide range of insurance cover throughout the world, including horse-breeding and space rockets.

The level of provisions for reinsurance business written through London was apparently especially poor. In many cases business was placed with reinsurers without a strong track record.

AIB attempted to shore up the company with a further injection of £40m, but in 1985 disposed of the company to the government for a nominal sum of £5.

The government called in a receiver, and AIB agreed to contribute £5.5m for 15 years to meet Insurance Corporation's outstanding liabilities.

By the end of 1991, the liabilities still remained in excess of

£270m. In a final settlement last year with the government, AIB agreed to contribute a further £58.8m per year for the next 20 years. The final cost to AIB of its involvement with Insurance Corporation will be close to £250m.

Mr Gerry Scanlan, AIB's group chief executive said yesterday: "I am pleased the issue has been brought to a conclusion and all of us in AIB can focus fully on the task of growing and developing the group at home and abroad."

The damages claim was made against E&Y's Irish partners and is to be paid by the firm's insurers. It is thought to be the largest settlement to be made in a damages case against an accountancy firm outside the US.

The payment has been made without admission of liability.

## A&amp;C Black slips to £244,000

A DROP in its publication programme led to reduced turnover at A&C Black, but some improvement in margins together with a further fall in net interest payable, meant first-half 1993 pre-tax profits were only £10,000 lower at £244,000.

Turnover of the group, which publishes yearbooks, children's and general books, fell 10 per cent to £3.88m. Mr Charles Black, chairman, said the publication programme for the second half was comparable with last year and directors were hopeful of a reasonable outcome for 1993 as a whole.

Net interest charges were £10,000 (£35,000). Earnings per share slipped from 11p to 10.6p, while an unchanged interim dividend of 4.38p is declared.

## Europa Minerals returns to black

A strong gold price, increased production and reduced costs

helped Europa Minerals, the mining group, return to profit in the six months to July 31.

Pre-tax profits for the first half were £652,000 against a loss of £313,000 last time; after tax and minorities there was an attributable profit of £86,000, against a loss of £975,000. Turnover was up 8.6 per cent at £9.7m.

Earnings per share were 0.3p (losses of 4.3p). Details of the proposed three-way merger between Europa, Burnine and Austmin are being finalised and should be posted to shareholders at the end of the month.

Meanwhile, Mount Edon Gold Mines has announced a conditional cash offer for Burnine. This will be considered when a formal offer is made, but at this stage Europa, which has a 38.5 per cent stake in Burnine - intends to proceed with the planned merger.

## Minmet acquires CDC Landscape

Minmet has acquired CDC Landscape, a contract landscaping and grounds maintenance company operating mainly in the UK.

Consideration for all the

issued shares was £1. Minmet has also provided £270,000 from existing cash resources for CDC Landscape to discharge a debt to Midland Bank and other members of CDC Group.

In addition, a £100,000 payment will be made to Mr Alan Clarke in the form of Minmet shares at a price of 4p each. A further payment of up to £130,000 is profit-related.

Management accounts for the 10-month period to July 31 indicate an annualised pre-tax profit for CDC Landscape of about £100,000.

Minmet will bring the operations of CDC Landscape and its Solent Trees subsidiary together under Groundland, a new holding company.

## Amicable Smaller may increase size

Directors of Amicable Smaller Enterprise Trust said they were considering, with their advisers, a placing and offer of additional shares to increase the size of the trust.

Any raising of additional capital will be structured to ensure no dilution of the net asset value of existing shares.

The offer will be made available to all existing shareholders,

## FKI in £900,000 buy from John Wood

The engineering offshoot of FKI, the West Yorkshire-based electrical engineering and electronic components company, has paid £900,000 cash for the business and certain assets of Wood Group Industrial Controls from John Wood Group, as a going concern.

Aberdeen-based Wood will trade as FKI Industrial Controls.

## Perry extends deadline on rights

Following representations from shareholders, Perry Group, the motor dealer, and NatWest Markets Corporate Finance have extended from September 20 to October 15, the deadline by which holders can satisfy either the company or NatWest Markets that an exemption under relevant North American legislation - entitling them to participate in the rights issue - is applicable.

## COATS VIYELLA FINANCE N.V.

(the "Issuer")  
7.25% GUARANTEED REDEEMABLE CONVERTIBLE PREFERENCE SHARES DUE 2004 (the "Preference Shares")

guaranteed on a subordinated basis by and convertible into Ordinary Shares of COATS VIYELLA PLC (the "Guarantor")

## Notice of Early Redemption

The Issuer hereby gives notice to the holders of the Preference Shares that, in accordance with Paragraph 8(c) of the terms and conditions of the Preference Shares, the Issuer will redeem all of the Preference Shares then outstanding on 5th November, 1993 (the "Redemption Date") at a redemption price equal to the paid up value of the Preference Shares to be redeemed (£1,000 per Preference Share) together with the dividend accrued but unpaid to (but excluding) the Redemption Date.

Payment in respect of any amount payable on redemption in respect of the Preference Shares will be made by presentation and surrender of the relevant Bearer Certificate/s at the specified office of any of the Paying Agents listed below. Each Preference Share must be presented together with all unremitted Coupons falling which payment shall only be made against such indemnity as the Issuer shall require. Any Coupon in respect of a Dividend Payment Date falling after the Redemption Date shall become void and no payment shall be made in respect thereof.

Payments in respect of Registered Certificates will be made against presentation and surrender of such Registered Certificates at the specified office of the Registrar or the Transfer Agent referred to below.

Any holder of a Preference Share who has failed to claim distributions or other property or rights within 12 years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights which shall be forfeited and revert to the Issuer. Matured Coupons shall become void unless presented for payment within a period of six years from the first due date for payment thereof.

Notwithstanding the foregoing, holders of Preference Shares are entitled to exercise their rights to convert the Preference Shares into Ordinary Shares of the Guarantor at any time up to and including the close of business on 29th October, 1993 in accordance with the terms and conditions of the Preference Shares. Application will be made for the Ordinary Shares of COATS VIYELLA PLC arising on conversion to be admitted to the Official List. Based on the closing middle market quotation of the Ordinary Shares of COATS VIYELLA PLC (as derived from the London Stock Exchange Daily Official List) on 4th October, 1993, the value of the Ordinary Shares arising on conversion of one Preference Share is £1,313.25 compared with the amount of £1,028.40 (principal plus accrued dividend) payable on redemption.

Holders of Preference Shares should note that Ordinary Shares allotted on conversion will be credited as fully paid and will rank pari passu in all respects with fully paid Ordinary Shares in issue on the Conversion Date including the right to participate in full in all dividends or other distributions paid after the Conversion Date, except that the Ordinary Shares so allotted will not rank for any dividend or other distribution declared or paid or made by reference to a record date prior to such Conversion Date. No payment or adjustment shall be made on conversion for any dividends accrued on the relevant Preference Shares since 14th June, 1993.

PRINCIPAL PAYING AGENT  
Citibank, N.A.,  
336 Strand,  
London, WC2R 1HB.

PAYING AND CONVERSION AGENTS  
Citibank, N.A.,  
249 Avenue de Tirvuren  
B-1150 Brussels.  
Citibank (Luxembourg) S.A.,  
16 Avenue Marie Thérèse,  
L-2132 Luxembourg.

Citibank (Switzerland),  
Bahnhofstrasse 63,  
CH-8021 Zurich.

TRANSFER AGENT  
Citibank, N.A.,  
336 Strand,  
London, WC2R 1HB.  
REGISTRAR  
Citibank (Luxembourg) S.A.,  
16 Avenue Marie Thérèse,  
L-2132 Luxembourg.

## TENDER NOTICE

## UK GOVERNMENT ECU TREASURY BILLS

For tender on 12 October 1993

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 1,000 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 12 October 1993. An additional ECU 50 million nominal of Bills will be allotted directly to the Bank of England.

2. The ECU 1,000 million of Bills to be issued by tender will be dated 14 October 1993 and will be in the following maturities:  
ECU 200 million for maturity on 11 November 1993  
ECU 600 million for maturity on 13 January 1994  
ECU 300 million for maturity on 14 April 1994

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Securities Office, Threadneedle Street, London not later than 10.30 a.m., London time, on Tuesday, 12 October 1993. Payment for Bills allotted will be due on Thursday, 14 October 1993.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with ESO, Euro-clear or CEDEL, Bills will be credited in the relevant systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at the Securities Office of the Bank of England after 1.30 p.m. on Thursday, 14 October 1993 provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005516 with Lloyds Bank Plc, International Banking Division, PO Box 19, Hays Lane House, 1 Hays Lane, London SE1 2HA. Definitive Bills will be available in amounts of ECU 10,000, ECU 50,000, ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. Her Majesty's Treasury reserve the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill programme issued by the Bank of England on behalf of Her Majesty's Treasury on 28 March 1989, and in supplements to the Information Memorandum. All tenders will be subject to the provisions of that Information Memorandum (as supplemented).

9. The ECU 50 million of Bills to be allotted directly to the Bank of England will be for maturity on 14 April 1994. These Bills may be made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented) in order to facilitate settlement.

10. Copies of the Information Memorandum (and supplement 4) may be obtained at the Bank of England. UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.  
Bank of England  
5 October 1993

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## C&amp;G Cheltenham &amp; Gloucester Building Society

Floating Rate Subordinated Notes due 2005

Notice is hereby given that for the six months interest period from October 4, 1993 to April 5, 1994 (183 days) the Notes will carry an interest rate of 6.12613%. The interest payable on the relevant interest payment date April 5, 1994 will be £3,072.46 per £100,000 denomination.

The Industrial Bank of Japan, Limited, London Agent Bank

IBJ

## EXTECAPITAL LIMITED

US \$ 100,000,000 PERPETUAL SUBORDINATED INCREASING MARGIN FLOATING RATE NOTES

In accordance with the provisions of the Notes, notice is hereby given as follows:

- Interest period: October 5, 1993 to April 5, 1994
- Interest payment date: April 5, 1994
- Interest rate: 3.896% per annum (including the margin)
- Coupon amount US\$19,891.39 per note of US\$1,000,000.

Agent Bank

BARCLAYS INTERNATIONAL  
A LUXEMBOURG

## Garrefour

SALES, TAXES INCLUDED AS AT SEPTEMBER 30, 1993

	September 1993 (in FF millions)	% Sept. 93/ Sept. 92	9 months ended Sept. 30, 1993 (in FF millions)	% annualised Sept. 93/Sept. 92
GROUP SALES	11,259	6.1	99,314	5.8
FRANCE	7,515	6.9	66,974	1.5

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COMPANY INFORMATION TO ACT ON

## COMPANY NOTICES

## CLAL FINANCE NV

US \$20,000,000

## GUARANTEED FLOATING RATE NOTES 1995

The interest rate applicable to the above notes in respect of the period commencing 30th September, 1993 will be 5.5% per annum.

The interest amounting to US \$139.03 per \$5,000 principal amount and US \$278.06 per \$10,000 principal amount of the notes will be paid on the 31st March, 1994 against presentation of Coupon No. 12.

BANK HAPOLIM B.M.  
Agent Bank

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# CABLE TV AND SATELLITE BROADCASTING

Wednesday October 6 1993

Rapid changes in technology herald a gradual move away from public service monopolies and the mass media to individual programme selection. As new media empires start to emerge, Raymond Snoddy considers the likely prospects for the consumer – and the entertainment provider – in this brave new world

## The power of choice, with the promise of a digital future

**T**he new headquarters of MTV Europe, in a North London building that was designed by architect Terry Farrell, are impressive by any standards. The international pop music satellite channel has recently expanded out of its former modest, cramped premises in a far less fashionable part of London, to inherit the Camden premises of TV-am, the commercial breakfast television station that lost its licence and went off the air at the beginning of this year.

The office of Mr Bill Roedy, the MTV managing director, overlooking the Grand Union Canal, used to be occupied by David Frost, and the MTV executive has kept a picture of TV-am's most famous broadcaster on the wall.

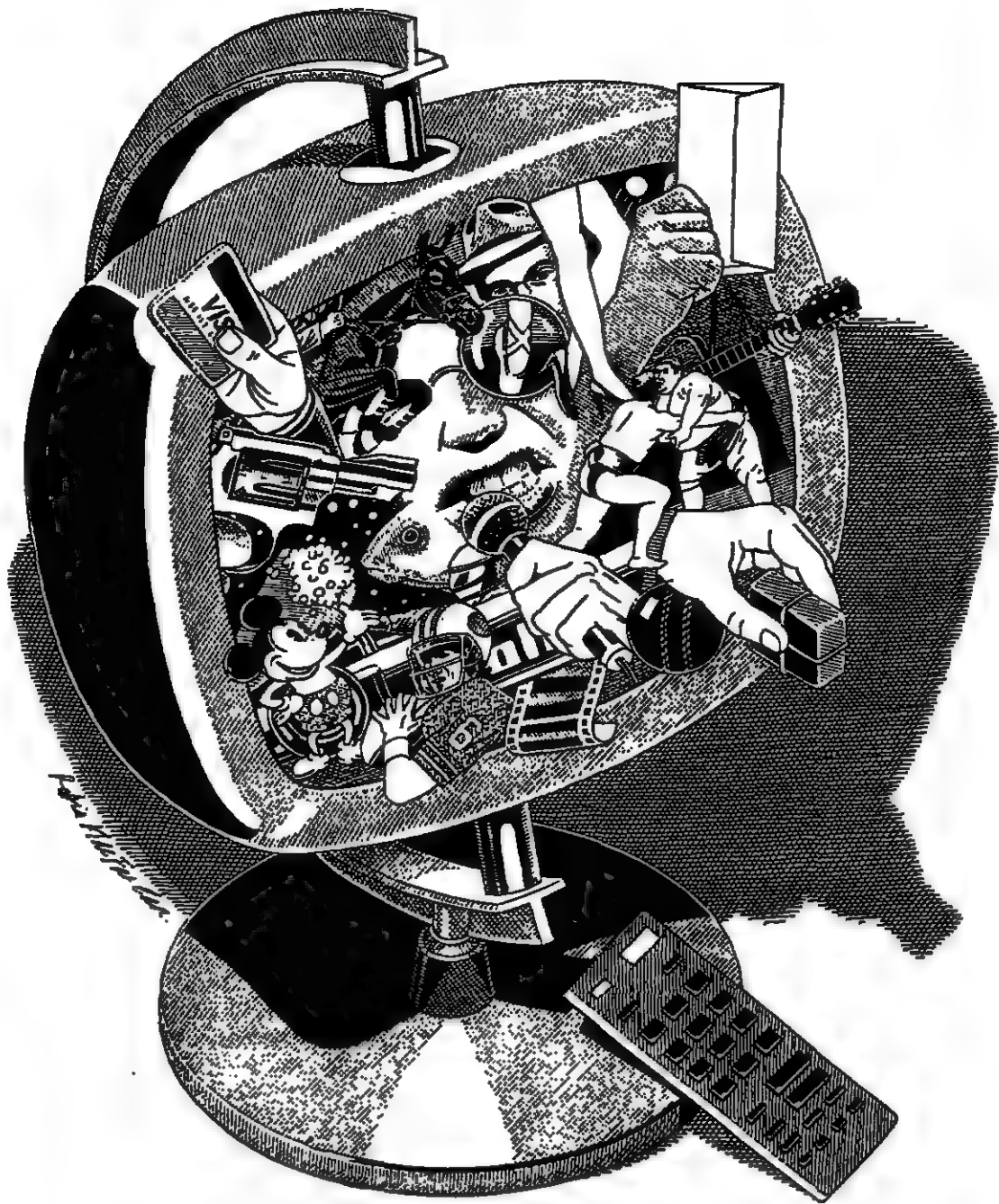
The famous TV-am egg cups are still on the roof of the building, but nowadays instead of chat at breakfast the studios transmit MTV 24 hours a day to about 55m homes around Europe and the Middle East. Two more channels are on their way across the Atlantic from Viacom, owners of MTV, Nick-at-Nite, which offers entertainment for

younger adults, and VH-1, Video Hits One which focuses on video hits from the past. They could also come out of studios where until recently Mr Bruce Gyngeil, the chairman of TV-am, reigned supreme.

The progress of MTV Europe over the past six years, symbolised by its new headquarters, is to a considerable extent a paradigm of the growing international ambitions, reach and technical potential of the new media.

So as to improve its coverage, MTV Europe is now on four different satellites and last month it arrived for the first time in both Cyprus and Turkey, through deals with local broadcasters and cable operators. There was also a press conference, held on a bomb site, to mark the arrival of the service in Lebanon.

In January MTV Europe will use digital compression technology on at least one of its satellites so that it can squeeze four channels into the satellite capacity presently occupied by one in providing a service to cable networks.



The company declines to disclose financial figures but it is now believed to be at least modestly in profit, almost certainly the first pan-European channel to move out of loss, with revenues of more than \$70m a year and more than 200 advertisers.

"In September (of last month) we took more advertising revenue than

in the whole of 1990," is all Mr Roedy will say.

He adds, however, that on his travels he has seen MTV not just at the Czech airport in Prague, in nightclubs in Moscow, or in Reykjavik in Iceland but also in the En Gedi kibbutz at the base of Masada in Israel, in souks in Marrakesh and in a fallout shelter

converted into a nightclub in Bratislava, Slovakia.

Mr Roedy only just stops short of claiming credit for the fall of the Berlin Wall for his irreverent service although he points out that MTV was there two days later, broadcasting to the former east Germany and was invited into Lithuania as a step towards

democracy and free flows of information while President Landsbergis was barricaded in his office, resisting the Soviet army.

He says he is going to try to make sure that MTV gets to the Gaza strip and Jericho following the Middle East peace agreement, whether or not it adds much to his advertising revenues.

Across London in Battersea, a new consortium has inherited the push remains of another broadcasting misfortune in Marco Polo house, headquarters of British Satellite Broadcasting until it was rudely merged with Mr Rupert Murdoch's Sky Television to form British Sky Broadcasting.

Pearson, owner of the Financial Times, was a major shareholder in BSB and has a 17.5 per cent stake in the merged BSkyB satellite venture.

Now, the magnificent atrium and the marbled toilets, where in the BSB days fresh flowers were placed every day, are occupied by broadcasters of a very different hue.

On October 1 QVC, a joint venture between QVC of the US and Sky Television, went on the air – the UK's first 24-hours-a-day, 365 days a year shopping channel.

In the US the QVC channel, run by Mr Barry Diller, former head of the Twentieth Century Fox studios, had a turnover of \$1bn in 1992-93. The company is bidding against Viacom to take over Paramount, one of the Hollywood majors. In the UK the joint venture will be pioneering the round-the-clock selling of a wide range of domestic, consumer and electrical goods costing between £10 and £500, largely by credit card.

Presenters will be responsible for three-hour live stints – with a particular theme bringing together groups of goods being offered every hour. At least to begin with the programme will not be live for all of the 24-hours with repeats being broadcast in the early hours.

All the goods will actually be owned by the consortium and be ready for dispatch from their own warehouse to customers who should receive them usually within three or four days. Because the productions are live, if a item sells out the presenter can move on rapidly to the next series of goods.

Mr Peter Ridsdale, the chief executive, promises that the channel, which is part of the Sky

multi-channel subscription package, will emphasise quality rather than cheapness but adds that discounts will average around 20 per cent on shop prices because of the lower overheads involved. In the beginning a wide range of goods will be offered to see which go down best.

The service will be the first of its kind in the UK with its own dedicated channel although there are rivals such as Sell-A-Vision, a joint venture between two cable programme companies, Flextech of the UK and Quantum International, part of the National Media Corporation of the US.

The Sell-A-Vision service, aimed at the larger European market, takes on unused morning hours on other channels and focuses on "infomercials" – long films on the virtues of a particular product. It is broadcast in four languages, English, Dutch, German and French, for up to 55 hours a week on the Astra satellite. According to Mr Roger Luard, chief executive of Flextech, profits are rising month-on-month.

In London leading cable operators have also improved their programme services by building a link between their franchises – "the London interconnect" – and setting up a special channel for cable called Wire TV.

The London interconnect allows cable operators to exchange new programme services such as Performance, devoted to the arts, and Identity, specialising in black programmes, which no single cable operator could provide on its own. Satellite transmission would be too expensive for such services and the interconnect is much more practical than delivering video cassettes by motorcade all over London.

There are even plans for a London news channel and talks are believed to be going on with a number of newspaper groups. The next stage is to link the London cable network with Birmingham and in time it is expected that all the big cable franchises in the UK will be able to communicate with each other and exchange programmes.

Such links not only open up the possibility of creating a greater diversity of new channels but should also make the cable audience more interesting to advertisers. At the moment the

Continued on next page

## CABLE COMMUNICATIONS YOUR DIRECT LINE TO THE FUTURE

◆ Over two thirds of the country has been licensed for cable with 130 cable franchises covering 14.5 million homes and businesses. The cabling of the UK is one of the most significant private investment projects in this country and £6 billion will be invested by cable companies over the next 6 years, with £3 billion of funding committed this year alone.

◆ 2.5 million homes now have access to broadband cable communications networks. One million new homes will have been passed by cable during 1993.

◆ Cable offers over 30 channels of television in addition to BBC1, BBC2, ITV and Channel 4 for increased viewing choice. 500,000 homes are already watching TV on cable.

◆ Cable companies are building advanced telecommunications networks and have installed over 200,000 residential and business telephone lines – a figure growing by 20,000 per month.

◆ Cable is more than just TV, more than just telephony. It's a hi-tech fibre optic network, an "Information - Super Highway" which will create some 24,000 new jobs across the UK.

### CABLE TELEPHONY GROWTH

SEPT 1993 – 226,871

JULY 1993 – 186,135

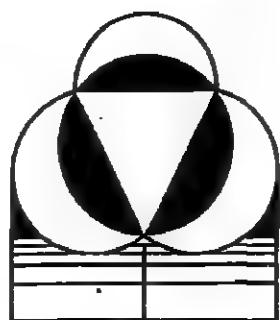
APRIL 1993 – 140,865

JAN 1993 – 109,133

OCT 1992 – 72,681

JULY 1992 – 47,902

JAN 1992 – 21,225 Exchange Lines



THE CABLE TELEVISION ASSOCIATION

The Fifth Floor, Artillery House, Artillery Row, London SW1P 1RT.

For further information contact Niall Hickey on 071 222 2900



## CABLE TV AND SATELLITE BROADCASTING II

Continued from previous page

multi-channel universe - a total of 658,884 households at the beginning of July could receive at least some of the new channels - is too fragmented to appeal to national advertisers. The ability to reach all the cable households in London with a single advertisement could begin to change that.

Down in Bristol, the headquarters of Wire TV, the new channel supported by the large cable players and operated by United Artists Programming, are much less plush.

In fact, in an echo of the access television pioneered by Mr Moses Zaimmer's CityTV in Toronto, a lot of the programme time is set in a shopping mall and there are experts such as doctors and lawyers on hand to give advice. But the emphasis is on informality and almost anything can happen.

Mrs Joyce Taylor, chief executive of United Artists Programming, whose programme interests range from Discovery, the documentary channel to Bravo, the classic film channel, or as they are trying to market it today "timewarp television", sees Wire TV as closer to a commercial radio station with pictures than conventional television.

Wire TV is meant to provide a national backbone of programmes to hold together the local programme offerings of cable operators around the UK and an outside broadcast van fringes around the country making programmes.

The 5-7pm period each evening is designated as an opt-out slot when operators can insert their own local news programmes. It is also part of the process of making sure cable television has channels and attractions of its own on

## A five-industry giant emerges

top of those common to satellite.

The life and diversity of international, national regional and local programmes ranging from MTV to QVC and Performance to Wire TV gives a suggestion of what is happening in the cable and satellite television market and the way an increasing number of services is being delivered, in addition to the offerings of the traditional broadcasters.

Yet all the signs are that what is available now is very much the beginning. Large international corporate forces taking advantage of rapid technological change are gathering, which are likely to transform the media business over the remaining years of this century and equally transform the level of choice available, at least in theory, to consumers.

Politicians glibly revive old visions of creating "super-highways" of limitless capacity down fibre optic strands as this as a human hair, usually without going into the specifics of how it is going to happen and who is going to pay.

But 10 years after the first wave of such talk, this time at least there is some reality to the vision.

In a notable piece of investment research last year Goldman Sachs predicted that because of rapid technological developments in computer software and hardware, consumer electronics, cable and telecommunications industries, "a true revolution in the delivery of entertainment, information, transactional and telecommunications services may be at hand".

The analysts argued that the marrying of the cable

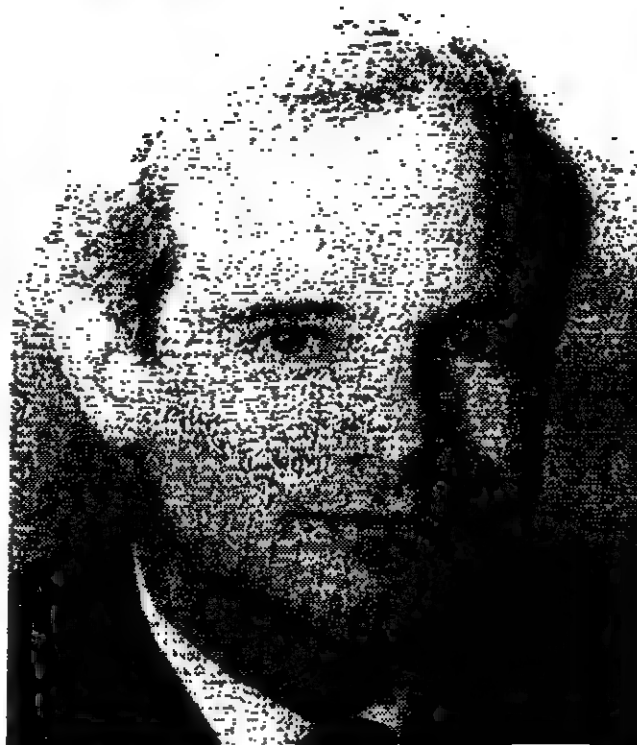
converter box with the computer, the turning of television pictures into digital form and the use of fibre optics and personal computer software would ultimately allow "immediate access to and manipulation of a bounty of information and informational products".

They called it the new world of Communicopia. Predicting the precise timing of such a process, when the consumer will start realising he lives in Communicopia, and forecasting who will be the winners and losers in such a world are challenges of a different order to noting that a number of industries are converging.

According to Mr Nicholas Negroponte, director of the Massachusetts Institute of Technology, there is simply no doubt. The future is digital. And when everything from television to telecommunications can communicate in digits, the language of computers, the extra choice that becomes available will lead to a gradual move away from the concept of mass media to one of personal media and individual choice.

Of course people will still read a general newspaper or magazine and watch a mainstream television channel to be surprised, amused, come across something they did not know they wanted to know, or share in the feeling of being part of a larger society or culture.

But increasingly, Mr Negroponte believes, there will be a growing tier of personal media both visual as well as



Bill Roedy, managing director of MTV Europe

print and that computers will be programmed to hunt databases and programme libraries to assemble specific packages of information or programmes to match the taste and needs of individual consumers.

Mr Rupert Murdoch, chairman of the News Corporation, would certainly not go so far as Mr Negroponte - or at least not yet - but he keeps in touch with the latest developments in media technology.

Last month he expressed what is rapidly becoming conventional wisdom at a high-powered dinner in London's Whitehall held to mark the transformation of Sky into a largely subscription package.

Five major industries - computers, telecommunications, television, entertainment and telecommunications - were converging into a single giant industry which would be the third largest in the world, he said.

"We feel that our company, with its worldwide network of talent, can make an important contribution to this exciting industry and, in the process enrich the countries in which we and their peoples work," the News Corporation chairman said.

The speech and a flurry of announcements that preceded it - everything from the purchase of a controlling stake in Star TV in Hong Kong which broadcasts to 38 Asian countries, to joint television ventures in Mexico and Germany, led critics to conclude that Mr Murdoch had embarked on a new phase of his bid for worldwide media domination now that he had largely broken free again from the debts and bankers who nearly took the company under three years ago.

He did not manage to persuade everyone with his further claim that technology was undermining the power of the individual media mogul by greatly increasing the number of possible competing choices available.

One of the key technologies Mr Murdoch was talking about was digital compression - turning television pictures into a digital stream and manipulating them.

Digital television equipment is already commonplace in the backrooms of the television industry, in such places as editing suites and special effects where they can turn reality on its head and send things whizzing through the air.

But much more than visual gimmicks can be achieved. Turn a picture into digital form and you can either have a wide screen with enhanced quality picture, a large number of new channels or a trade-off between the two.

Consumer electronics manufacturers would very much like to sell their customers new high definition television sets.

One day no doubt they will, but early indications from the marketplace would suggest that more consumers are interested in having an increase in channels than seeking sometimes evolutionary enhancements in the television picture that are more readily noticeable to television engineers than those who already quite happily watch appalling pictures with badly tuned aerials.

Companies such as National Transcommunications, the former transmitting and engineering arm of the old independent Broadcasting Authority in the UK, Scientific Atlanta and Compression Labs of the US are already offering digital compression systems.

A National Transcom system is being used this autumn to

turn one channel into three for FilmNet, the Brussels-based European film channel.

The Astra satellite system is planning to offer digitally compressed channels from 1995 - as long as agreement has been reached on standards - something that seems increasingly likely.

Last month 85 manufacturers and broadcasters from 12 countries met in Bonn to set up the Digital Video Broadcasting project to draft a European standard by the end of this year which will incorporate, where possible, the work of the Motion Pictures Expert Group and the emerging standard known as MPEG 2.

Agreement could mean the prospect of 150-channel television systems for Europe would then open up. Eutelsat, the rival satellite system to Astra which is owned by the post and telecommunications organisations of Europe, plans to offer digital on a satellite due for launch in 1996 - Hot Bird Plus. A large number of compressed channels is also likely on the Star system by 1996.

In digital compression a great reduction in the amount of information that has to be transmitted is achieved by storing the elements of a television picture that do not change from one frame to the next.

Instead, only the information covering movements, or any other new elements in the picture, is transmitted.

The savings in information are so great that, depending on the quality of picture required, as many as 10 television channels can be squeezed into the space previously occupied by one channel.

Not only does digital technology make more channels possible, by reducing the cost of delivery a wider range of minority channels broadcast by satellite becomes financially viable.

So far, digitally compressed channels are being sent only to cable networks rather than direct to the consumer. This is the quickest way to achieve savings because only one decoder is needed at the cable head end to serve the entire cable network. Domestic decoders are now being designed and the first digital television service to the home will be launched next year.

This December a Hughes Aircraft company satellite will be launched from French Guiana, a satellite which by April 1994 will be broadcasting a digitally compressed service of between 70 and 80 channels to dishes of less than 18 inches diameter over the entire US continent. A second satellite is due to go up in mid-1994, which will mean the system will be able to offer a total of 150 channels.

"Everything is on schedule," the operating company DirectTV said this month. The domestic equipment is being manufactured by Thomson Consumer Electronics.

About 50 to 60 of the channels will be given over to "nearly video-on-demand". Five or six satellite channels can be devoted to a single popular film and the showing times staggered so that the viewer is never more than 15 or 20 minutes away from the beginning of the film on one of the channels.

DirectTV also plans to run a batch of channels aimed at rural areas of America which are not cabled or cannot receive television signals without erecting enormous dishes. There will be special events and sports channels covering games not shown on network television. DirectTV expects its subscribers to spend something like \$25 to \$30 a month on the services available.

It is too early to judge how well DirectTV will fare -

previous high power satellite television services in the US have floundered largely because more than 60 per cent of the population are already hooked up to cable networks. The receiving equipment is expected to sell at \$380 to \$399, not including installation. This compares with between \$1,800 and \$2,500 for existing backyard dishes which can be as large as three metres in diameter.

Some US observers think that DirectTV could at least dent cable's growth as well as making inroads into the 5m homes in the US that have very large dishes.

A number of large US media groups are looking at different ways of delivering greatly increased choice and pay-per-view movies, through cable networks as well as satellite.

Time Warner, for instance, the world's largest media group, is already running a 150-channel service on a conventional cable network in the New York borough of Queens - and again, apart from the normal selection of cable channels and several ethnic minority services such as Korean and Japanese channels, a large block of channels is set aside for the staggered showing of a small number of hit movies in the hope of generating new revenue.

The company is also building an experimental cable system in Orlando, Florida, to look into the market for advanced interactive services of all kinds. Viacom is setting up its advanced cable system at Castro Valley, California, as a virtually a cable laboratory to test a range of possible ways of

He warned, however, that all the evidence suggested that there was a limited range of things that the public were willing to pay for - mainly hit movies and genuine events such as a world boxing title match. Run-of-the-mill concerts do not register at the pay-per-view box office.

The outlook could, however, improve further, he added, when "we finally achieve electronic Nirvana".

What Mr Bleier had in mind was massive libraries of films stored electronically which can be directly switched to individual viewers' homes.

Nirvana has hardly arrived yet but a number of organisations, apart from cable and satellite companies, are working hard on developing ways of competing directly with the video shop by enabling consumers to order the film of their choice electronically.

Later this month British Telecom will decide whether to go ahead with a video-on-demand service down existing conventional telephone lines. The plan would cost several billion pounds. A number of American telephone companies have been carrying out similar work.

BT technologists insist that pictures of a "merchandise" quality - as good as video recorder reception can be delivered over a high proportion of the BT telephone network which goes into 23m homes.

There is enough capacity for the pictures to be transmitted down a telephone line while a conventional telephone conversation is taking place.

BT concedes that picture quality may fade the further away a consumer is from the local telephone exchange. Cable television critics say it is

requested by and shown in an individual household, needed a local delivery licence under existing broadcasting legislation.

If BT had needed a local operator's licence from the ITC, it would almost certainly not have got one in cable franchise areas. The Commission has always taken the view that it will not license competitors to cable, at least while networks are still being built. The ITC's view of the matter, which is subject to seeing detailed proposals might yet be tested in the courts.

Mr Richard Wooliam, managing director of the Cable Television Association, the industry trade organisation, is phlegmatic in commenting about the challenge from such a service.

"What we are seeing from the US is that while video-on-demand may be the cherry on the cake as a stand-alone product, it isn't proving to be a commercial success."

The CTA managing director adds that BT has not fully sorted out its voice business yet. "To try to stick in some form of digitalised compressed video service is very much Hans Christian Andersen stuff," he adds.

In spite of his doubts about the financial viability of such a service, it is likely that the CTA, on behalf of the cable industry, will sue BT if it tries to go ahead. Under the Duopoly Review BT is forbidden from competing directly with cable television in programme services until at least the year 2000.

Any legal dispute is likely to revolve around what sort of service under existing legislation video-on-demand is deemed to be.

Certainly, many of the big players in the UK media industry have been to see BT's

## Screening of programmes by public service broadcasters

		Percentage of hours broadcast		Method of funding	
UK	BBC	90	Domestically produced	10	Mainly licence fee
US	PBS	35		15	Voluntary donation & govt grant
Japan	NHK (public)	84		14	Mainly licence fee
Germany	ARD	30		20	Mixed licence fee and advertising
Germany	ZDF	30		20	Mixed licence fee and advertising
Italy	RAI (public)	30		20	Mixed licence fee and advertising
Netherlands	NOS	65		35	Mixed licence fee and advertising
Australia	ABC	53		47	Government grant
France	FR3	50		50	Mixed licence fee and advertising
New Zealand	TVNZ	27	Imported	73	Mainly advertising

Source: TBI Yearbook 1992, RAI Yearbook

## Competition in the air

THE RISE of new broadcasters through cable and satellite - sometimes, as in Germany, also broadcasting on conventional land-based transmitters - is beginning to make life more difficult for public service broadcasters.

Next month public service broadcasters from all over Europe will meet under the auspices of the European Broadcasting Union to assess the competitive threat and try to adopt a co-ordinated response.

Earlier this year, for example, Mr John Birt, director-general of the BBC, conceded that by the turn of the century the new media could account for about one-third of the revenues in British broadcasting and a similar proportion of the audience.

A recent study by McKinsey, the consultants for private broadcasters taking an increasing share of the audience in a number of countries.

In Germany, for instance in 1987 the total public service had an audience share of 83.1 per cent of viewing. By 1992 it had dropped to 46.5 per cent.

McKinsey concluded that the licence fee was potentially the most attractive funding source to meet public service obligations in a difficult competitive world.

"Experience from France, Germany and other comparable countries does suggest that advertising dependence can drive a decline in programme mix that undermines public service broadcasting goals," the consultants argue.



John Birt, director-general of the BBC

Source: TBI Yearbook 1992, RAI Yearbook

## Television audience share

		Percentage of hours watched at prime time	
New Zealand	38	Public	12
Sweden	77		23
Netherlands	54		46
Italy	47		51
Germany	49		53
UK	44		56
France Canada	42		58
France	40		60
Anglo Canada	19		81
Australia	18		82
Japan	9		91
US	3	Private	97

Note: Figures for Sweden, Canada and the US are for average rather than prime time viewing. Public service audience share for Japan includes local commercial stations, although their audience share is negligible.

Source: TBI Yearbook 1992, Cable TV Advertising

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## CABLE TV AND SATELLITE BROADCASTING IV

**F**or years Mr William Graven has been working away at his concept of an electronic video store through his company EMC - Entertainment Made Convenient 3. The idea is that the viewer orders a feature film from a library by using a free telephone number and the film is squirted down to the consumer in a five-minute digitally compressed burst to a specially adapted video recorder. The recording can be watched twice but erases itself on its second play.

Mr Graven says he already has reached agreement with a number of Japanese consumer electronics companies to manufacture the new video recorder and believes his dream of creating an international electronic video store which never runs out of even the most popular films is now not far off.

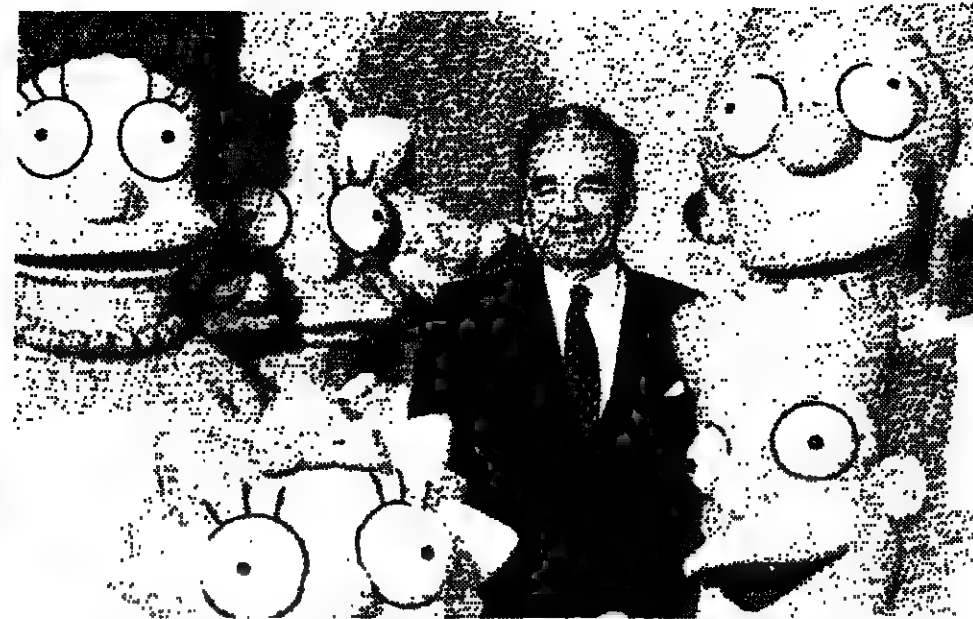
New video recorders with the EMC function are expected to become available by November 1994 and would cost around \$500 although the cost could drop to \$350 in mass production. Research carried out in Japan showed that consumers understood the concept of video-on-demand and said they preferred it to the existing subscription channels.

While video-on-demand is likely to be one of the big themes of the next few years, and a possible financial driving force for the introduction of digital compression technology into the home, another will be the way US media companies are determined to drive their films and programmes around the world using all available and emerging technologies. Soon hardly anywhere on earth will be entirely safe from at least the potential of tuning in to cheerful American voices revealing the latest news or introducing the oldest films.

Mr Ted Turner's Cable News Network and CNN International proudly boasts that it is already on 13 satellites around the world, soon to be 13, and that only some parts of Greenland and Antarctica are still deprived of 24-hours-a-day television news.

Mr Turner may have been the first to take his channel international, followed by Viacom's MTV, but more US channels are now trying to break out of the large but increasingly saturated American market and a number of significant US media companies are buying

# The film that can erase itself



Ted Turner (left) of CNN - whose Cartoon Network forms part of a 24-hours-a-day channel - is irritated by all the publicity that Rupert Murdoch (above) - pictured with some of The Simpsons from the Sky TV series - has had for his international news plans

issue of European content, although much less so to issues of eroticism or pornography beamed in by satellite, is starting to take a firmer line on content.

Mr Peter Brooke, secretary of state for National Heritage, told the Royal Television Society's Cambridge convention last month that maybe it was time for Sky One, the general entertainment channel that has just recently been scrambled and included in the Sky Multi-Channel subscription package, to start thinking about including more UK-made programmes. The channel relies heavily on programmes bought in Los Angeles.

Mr Sumner Redstone, the Viacom chairman, has not yet seemed to run into cultural resistance to his channels. He also plans to take Viacom channels - Nickelodeon, the children's channel and Nick-at-Nite and VH-1 around the world.

He has a vision of an international children's channel, created with local partners that would give "a chance of an international lobby for the kind of world we want to live in".

Nickelodeon has already arrived in the UK with Nick-at-Nite and VH-1 following early next year.

television ambitions. Given Reuters' expertise in business and financial reporting some sort of television business channel might make sense.

The latest American arrival on the European media scene is NBC, the US network which runs cable channels in the US including a business news channel, and which has been

Family Channel, its successful American cable channel, to the UK.

The strongest European opposition to growing American dominance of the international television news airwaves is coming from BBC World Service Television, which was finally launched two years ago after long delays. The British government, which funds BBC World

## An increasingly tense battle is now likely between international TV news organisations. The well-entrenched CNN already faces growing opposition from BBC World Service Television

looking at the pan-European market for some time.

NBC has bought a 75 per cent stake in SuperChannel, the general entertainment satellite channel which has access to around 60m cable television homes in western and eastern Europe. The deal is believed to be worth around \$40m. Set up originally by a consortium of ITV companies, apart from

Service Radio, refused to contribute any money to get up the service and forbade the BBC from using licence fee money to fund it. In the end, a modest sum was found from the sale of subscriptions in Europe for an existing BBC general entertainment channel to get World Service Television under way.

Because of shortage of funds,

Indians are able to watch the BBC 6 O'Clock News live in the evening and Newsnight, the BBC evening current affairs programme, is shown the next morning.

The BBC has recently signed a deal with Intelsat to use digital compression to help add the US and Latin American to its existing markets.

Mr Tom Johnson, president of CNN, recognises that BBC World Service Television is very professional and represents growing competition. However, he cites its lack of finance as one obvious weakness. In 1992 CNN in all its forms had total revenues of \$355.6m and made operating profits of \$150m.

The Murdoch purchase of control of Star has caused uncertainty over the future of BBC World Service Television in Asia but Mr Murdoch has stated unambiguously that he will honour the BBC's 10-year contract with Star. It probably makes good business sense for him to do so because the BBC name is well regarded, particularly in India, and the service is believed to bring in a significant proportion of the advertising revenues of the Star system.

In all this brave new world, the UK is playing a key role, not because of the size of the market but because of the number of things going on there. To a considerable extent North American media and telephone companies view the UK as a laboratory whose results merit careful study.

It is the only place in the world where telecommunications deregulation has gone so far as to allow cable companies to offer a full range of telephone services in competition to the PTT. As a result, most of the regional Bell operating companies from the US have piled into the UK cable market, partly because they see a good business opportunity but also to learn about cable in the hope that a similar pattern of deregulation is not far off in the US.

At the same time, US telephone companies cannot run cable television franchises in their own telephone operating areas although they can buy systems elsewhere in the US. The issue is heading for the US legal system. Bell Atlantic recently won a local ruling in Alexandria, Virginia, allowing it to start up a cable system there in competition with Jones, a large cable operator, a decision that is being appealed against.

The other interesting factor about the UK is the scale of the satellite subscription business that has been built up by BSkyB. Mr Murdoch, who owns 60 per cent, quite simply describes it as the leading satellite company in the world and points to an important lesson learned in the UK which is influencing his decision-making in other parts of the world such as Asia.

"There is no question we have shown here (in the UK) that first in gets the market," he says. Canal Plus, the French pay television company is probably still bigger, but it enjoys one enormous advantage - control over conventional television frequencies so that it can broadcast over normal land-based transmitters.

On the face of it, cable television's performance in the UK would give pause and tortoise a good reputation. After 10 years of effort, according to the latest official figures to the beginning of July, only 658,894 homes were connected to any form of cable and that involves a broad definition including blocks of flats connected to an antenna and old-fashioned television relay systems upgraded to carry at least a basic selection of the new satellite channels. The total for the modern broadband or multi-channel systems was 473,415 although the symbolic 500,000 figures was expected to be passed sometime this month.

Continued on facing page

# TELEVISION

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**M**r Rupert Murdoch has also recently been spelling out his international ambitions, linked with the \$525m purchase of Star TV and with its potential entrance to the Asian television market. "It's a global dream that you never quite dared have, and suddenly it's there," he says.

The global dream is not universally shared in the region. The Malaysian government has already expressed reservations about Mr Murdoch's intentions. Partly maybe to answer such criticisms, Mr Murdoch is planning to create separate Star services for India and China, and possibly a third Star at a later stage for the 200m people of Indonesia to reflect, at least partly, the enormous cultural and linguistic differences that are involved.

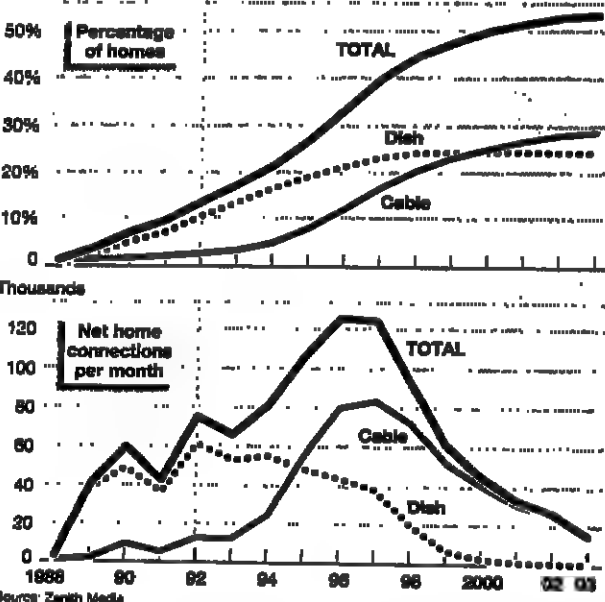
The News Corporation chairman makes no bones about wanting to take his UK channels, such as Sky Sport, around the world. "We will also take Sky News around the world. There will be a parallel international service and Sky News as we know it today will be for Britain and Europe," Mr Murdoch says, adding that he plans to work with local partners for the international service in different parts of the world. "Maybe Kerry Packer in Australia," he muses.

An increasingly tense battle is now likely between international television news organisations. The well-entrenched CNN, already facing growing opposition from BBC World Service Television, is likely also to come up against competition from Mr Murdoch's Sky News.

However, Mr Ted Turner of CNN is irritated at all the publicity that Mr Murdoch has had for his international news plans, which tend to put in the shade the fact that CNN is already there and has already done what Mr Murdoch is only hoping to do. Mr Murdoch in turn has long had the ambition to bring to the occupants of hotel rooms around the world news that is less obviously American than CNN - or at least less American than CNN used to be before CNN International was developed.

Independent Television News of the UK is not yet a contender in the international television news battle but would like to become a player. Reuters, the international news and financial information group, now an ITN shareholder alongside Mr Michael Green's Carlton Communications, is making no secret of its

## Satellite penetration



Source: Zenith Media

Thames Television which declined to take part, the channel made significant losses until it was sold to the Maroucci family of Italy with Mr Richard Branson's Virgin group retaining a minority stake for only £9 and the assumption of around \$2.5m in debt. So far nearly \$25m has been invested in the channel which has specialised in niche programming because it could not afford the big new movies or top exclusive sports events.

As the Maroucci family move on to specialise in international television production, the resources of NBC, both in programming and finance, could make all the difference to the outlook for SuperChannel.

Time Warner has also been trying to maximise revenues from its programme library by taking its Home Box Office around the world. There have been pay-television joint ventures in Venezuela, Hungary, New Zealand and Scandinavia and through HBO Ole, the first Spanish-speaking movie and entertainment service available to all of Spanish-speaking Latin America and the Caribbean.

Other US investors in the UK include Cox, the Atlanta-based media company, which has taken stakes in two new satellite channels, UK Gold, based on the libraries of the BBC and Thames Television and UK Living, a channel devoted to women's interests. International Family Entertainment, a company linked with American television evangelist Pat Robertson, has bought TV8, the ITV company that lost its south of England franchise and brought The

Mr Chris Irwin, its chief executive, has had to proceed via a series of self-financing joint ventures. The service is now available in Africa and on cable networks in Canada. Next spring it will launch in Japan in a 10-year deal worth \$150m, and there are hopes of getting into the US market.

But perhaps the greatest impact that BBC World Service Television has had so far is in Asia, where it is delivered from London to 38 countries as one of five channels, including MTV, on the Star satellite system. In India alone, World Service Television has more than 13m regular viewers, according to independent research earlier this year.

## CABLE AND SATELLITE BROADCASTING

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# Having to pay is easy to sell

Continued from previous page

When it comes to broadband homes offering the full range of cable programme services, the total number takes on an even more pessimistic hue compared with the number of homes in the UK which could subscribe if they wanted to. That total by July 1 stood at 2,337,287, which meant that precisely 1,853,842 households whose homes have passed by a cable network have decided not to subscribe so far. This gives a disappointing penetration rate - the ratio of those subscribing to those who could subscribe - of 20.3 per cent.

Indeed, the official quarterly bulletin from the Independent Television Commission carries the headline "Cable Growth Slows in 1993". The report begins: "The increase in the number of broadband cable subscribers slowed down in the first half of 1993, apparently as recessionary factors generated higher rates of disconnection."

This meant that although there was a net increase in subscribers in the first six months of 1993 of 33,000 because of faster rates of building cable networks, the average take-up rate dropped to levels last seen in early 1992.

And all this has been happening at a time when Sky Television has been dominating the headlines with its 18-channel package and more on the way. At £19.99 a month, including three movie channels and a sports channel, it appears superficially, at least, to be so much better value than cable.

Quite apart from the aesthetics of having a dish on the wall, whether flat, see-through or not, this illusion is at least partly created because satellite viewers have to buy or rent the receiving equipment. With cable, it is all included. Although the difference may be more apparent than real, it does not make cable's marketing task any easier.

Against such a background, why are a growing number of big banks getting excited about backing cable while their lack of interest in earlier years blocked the development of cable? Why does Mr Richard Woolam of the CTA find his lunch diary clogged with engagements to expound on the newly discovered virtues of cable?

The change can partly be explained in two words - cable telephony. Cable television as a business selling just more television channels always seemed like a long haul in the UK, where unlike the early good quality television signals carrying good quality programmes from the BBC, ITV and Channel 4 are almost universally available. But add telephone services and the economics are transformed.

"We are not a cable TV business. We are an entertainment and information and communications business," says Mr Michael Turner, chairman of the CTA and chief executive of Southwestern Bell International, whose franchises cover a total of 1.14m homes in the Midlands and north-west of England. The number of cable telephone subscribers is still small - around 300,000 - but the rate of increase of cable operators are quite dramatic.

Three years ago Mercury Communications supplied 200 telephone lines a month to the cable industry and revenues were in hundreds of thousands of pounds. The rate is now running at more than 20,000 lines a month and between £60m and £70m is expected to be generated at the retail level this year.

By the end of September just under 250,000 telephone lines had been handed over to cable franchises, though not all of these are yet in use. There are now 33 cable franchises in the UK offering telephone services, compared with 17 a year ago and many operators are installing their own switches. In August Mercury announced marketing and operations agreements with the largest cable operators, including Encom, General Cable, Nynex, CableComms, Southwestern Bell, TeleWest Communications and Videotron.

Nynex, with franchises in the Brighton, Poole and Worthing areas, is providing telephone links for public services in the region. "We have tied together Hampshire police stations and we are working on ambulance stations and other things," says Mr Peter Lynch, marketing director of Nynex, the telephone company for New York and New England.

Mr Alan Bates, managing director of Jones Cable, with interests in more than 1m homes under franchise including Aylesbury and Leeds, is very clear about the benefits of telephone services. "We thought this year that 40 per cent of our revenues would come from telephony and 60 per cent from cable. We have just passed through where it's 50-50 and we are fast heading for 60-40 the other way around. To double your revenue on a margin additional cost (to install telephony) is phenomenal," he says.

The joint cable television/telephony package is much easier to sell than cable TV alone, Mr Bates emphasises. The English middle classes, he believes, habitually lie about what they watch on television and find it difficult to buy anything so vulgar as cable. But discounts of up to 30 per cent are something they understand, even though there is the inconvenience for domestic subscribers of changing their number. "Then they say we'll take cable for the children," laughs Mr Bates.

The spread of telephone services on cable network will increasingly pose competition for BT, which the national operator will find it difficult to meet.

The cable operators are local and geographically dispersed and each individual network can offer different packages of discounts, including free local calls in some areas.

A BT price cut to tackle small cable discounters in a few hundred thousand homes would have to be offered nationally, costing the company millions of pounds.

The emerging importance of telecommunications has led to a measure of consolidation in the industry as the well-funded American phone companies, which like to boast that they understand all about "burying loads of money in a hole in the ground", have been buying up franchises that come on the market.

For example, in March Nynex bought three franchises in Greater Manchester, Bolton and Derby that were previously held by Pacific Televis, which decided to concentrate its investment thrust on mobile communications and

began to withdraw from the UK cable market. More recently TeleWest, the joint venture between Mr Malone's TCI and Bell West became the largest cable operator in the UK when it bought seven Scottish cable franchises owned by Post-Newsweek Cable.

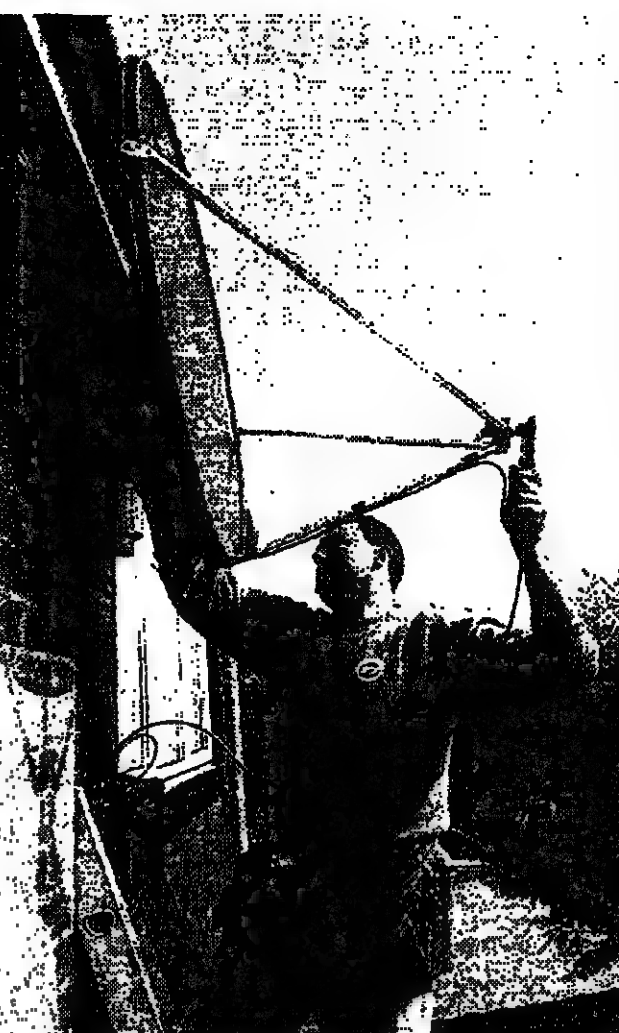
Up and down the country, a rough pattern is beginning to emerge in cable sales: that of every 100 sales the cable industry makes, 70 people will take the combined television and telephone service, 20 people cable television only and 10 people telephone only. They are percentages that certainly impressed Mr Bates's bankers recently to enable him to negotiate what was seen as a landmark financing deal for cable.

NatWest Markets, the corporate finance arm of National Westminster Bank, arranged a £152.5m financing for the "construction and operation of a cable television and telecommunications franchise" in Leeds. The money is made up of £77.5m in equity and £75m in non-recourse finance.

It is the first "fully-funded" cable deal concluded before construction actually begins, although of course performance thresholds are built in. Five UK investors are involved including Cable & Wireless, the parent of Mercury Communications, although most of the money came from US investors such as Capital Cities/ABC and Paine Webber and the debt was underwritten by the Bank of Nova Scotia and other banks.

Even bigger cable finance deals are in the pipeline. It is believed that Citibank is in the process of raising £250m for the UK cable franchises of Nynex. If the deal goes through, it could further improve the investment climate for cable, though the bankers will be watching carefully to see that their positive analysis on the prospects for cable works out in reality.

Mr Michael Turner is not downhearted at the slowdown in cable subscribers. "It's been a mixed year for cable, but if you look at the fundamentals of the business there has been record investment, record build, very low penetration rate is coming down a bit. We're disappointed but not really concerned. We are convinced it will come back, that the market is going to buy the product," the CTA chairman says.



Frank Macintyre of Hertford Aerials, with one of the latest see-through satellite dishes

This year a total of £750m will be invested in the construction of cable networks in the UK, more than in any previous three- or four-year period. But what if the British people simply do not want multi-channel television or at least the programmes now being offered? Many of the big cable operators have carried out their own consumer research just to make sure that there is not an invisible, insuperable barrier. "I don't think there is anything in the culture of the British people that says that over time they won't want multi-channel," says Mr Bates.

And even if adults, were to behave in that "perverse" way, then the children will certainly understand cable and the choice it offers. Another straw in the wind is the fact that not all cable operators are performing so very modestly. In Birmingham, for instance, the penetration rate is running at 33.5 per cent - and anything over 30 per cent, bankers say, is definitely a business because of the cash flows generated. If only the rest could lift their game to the Birmingham level, cable enthusiasts say.

On the day Sky Television was launched in February 1989, Mr Murdoch made it clear that other services apart from movies could be encrypted, or scrambled and charged for on a monthly basis.

There is a large risk in charging for a service that has previously been "free". Last year Sky started to charge for

its sports channel and this autumn Sky One disappeared from the gaze of those not prepared to pay. Mr Murdoch himself feared there could have been uproar at the decision to charge but, against all the odds, if anything the opposite has happened.

Satellite dish sales started to rise after a period of slower growth. Partly this was the result of massive publicity and partly it was a response to carefully structured special deals and discounts.

Perhaps above all else, the pill of having to pay was sugared by the arrival of new non-Murdoch channels in the package so that, at least by the beginning of next year, there will be a total of 18 channels under the Sky marketing banner at a total monthly cost to the consumer of £19.99.

Twelve scrambled channels ranging from Discovery and The Family Channel to UK Gold, which draws on the BBC and Thames Television and Country Music Television, are available in the Multi-Channel package for £6.99 a month - the equivalent of the basic tier of channels in the cable television package.

Paradoxically, the simple subscription package may be easier to sell than the previous mixture, where some channels were only on subscription and others were free.

"People understand the subscription package. It's easier to sell," says Mr Paul McMullan, of East Antrim Electricals, who has sold satellite equipment since the early days of Sky Television. The logic of the move to subscription is unsound in financial terms, as long as Sky can retain most of its existing viewers and start to build again.

As each new satellite channel becomes available the audience for the new media, as opposed to the traditional broadcasters, is further fragmented. The smaller the audience, however good the targeting or the demographics, the less significant that audience is for advertisers. Although there will inevitably be elements of cross-over, the most obvious way to maximise the choice available to the public is for it to be funded by three separate streams of revenue - a licence fee, advertising and subscription.

The new subscription revenues could transfer BSkyB's balance sheet, although the company will have to be sure that the

subscribers are being given value for money and not progressively milked once they are "hooked" on the extra choice.

Viewers have been persuaded to pay a monthly subscription for a sports channel that used to be free, largely as a result of the exclusive £300m deal to show live premier league games. But if Sky were to take some of the best games out of the existing package and charge an additional pay-per-view fee, that might turn out to be a step too far for many of their customers.

Sky has said it will launch a pay-per-view service next year, possibly at the same time as a second sports channel begins broadcasting although little has been said about what sort of events will be offered on the pay-per-view menu.

BSkyB has made considerable financial progress in the past two years, and at least at the operational level, is now making more than £2m a week although there is still a pre-tax loss of about £70m a year when notional interest payments on the £1.7bn invested in the project are included.

Next year, the money will start to flow back to the owners of the consortium who have so far not actually paid each other the interest on their loans to the venture. Apart from News Corporation and Pearson, the main investors are the Granada Group and Chargeurs de France.

Compared with the enormous losses of the past, the figures that Mr Richard Brooke, BSkyB chief financial officer, announced for the year to June 1993 were remarkable. The operating profit of £81.5m represented a £108m turnaround on the previous year and turnover was up by 33 per cent to £380m - 80 per cent of it coming from subscription revenue. In addition, the satellite consortium had needed no new funding from shareholders since May 1992 and £34m of available funding had not had to be drawn down. It seemed like a turning point of some significance and, executives promised, the improving trends were continuing into the current financial year.

Mr Gary Davey, the BSkyB deputy managing director, pointed out last month that 100,000 new movie channel subscriptions had been signed up in August alone, taking the total of movie subscriptions past 2m for the first time.

Continued on next page

## WHERE TO WATCH THE FT THIS WEEK

### MONDAY

- 05:30 FT Reports •
- 06:30 European Business Today†
- 07:45 European Business Today†
- 12:30 West of Moscow†
- 22:30 European Business Today†

### TUESDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 07:45 FT Reports\*
- 13:15 FT Reports\*
- 15:45 FT Reports\*
- 18:45 FT Reports\*
- 22:30 European Business Today†
- 18:45 FT Reports\*

### WEDNESDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 21:30 FT Reports†
- Healthy Business?... How will Clinton's reforms affect the US business community?
- 22:30 European Business Today†

### THURSDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 18:45 FT Reports\*
- 22:30 European Business Today†

### FRIDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 22:30 European Business Today†

### SATURDAY

- 08:30 FT Reports†

### SUNDAY

- 03:30 West of Moscow •
- Moscow manoeuvres.... A popular mandate for Yeltsin or another body blow for the Russian economy?
- 05:30 FT Reports •
- 22:30 West of Moscow †

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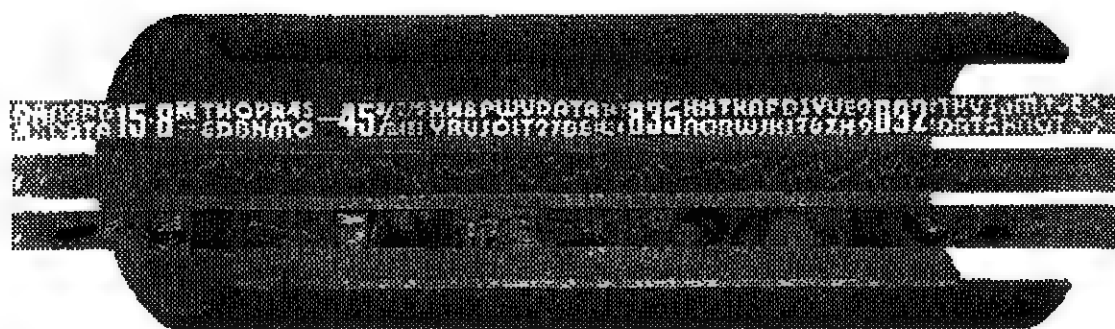
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## CABLE TV AND SATELLITE BROADCASTING VI

## Menace of pirate cards

Continued from previous page

**B**SkyB is facing a growing problem of pirate subscription cards. News Corporation's VideoCrypt system, based on a microchip embedded in a card rather than a telephone card which "unlocks" the scrambled pictures, was claimed to be pirate-proof. In fact, pirate cards are being openly advertised and sold in Scandinavia and Germany, and the trend is starting to spread to the UK.

One company in England is already offering pirate cards for sale at £200 in what amounts to an unofficial subscription service of its own. If BSkyB changes the codes in the chip, the company offers to provide a replacement for an additional fee of £30. Like many transactions involving intellectual property, it is apparently not illegal to offer such cards for sale although it is illegal for consumers to use them.

If the number of pirate cards in circulation were ever to become substantial, it would damage BSkyB in two significant ways. In the UK piracy would simply mean the loss of revenue or potential revenue but in continental Europe the problem could be even more significant. The satellite company buys only the UK subscription rights to Hollywood films which are sold by the studios on a country-by-country basis. The agreements with BSkyB are conditional on the films not being available all over Europe. Widespread piracy, unless tackled, could call vital film contracts into question.

Overall, BSkyB was in more than 3.5m homes by the beginning of September including 3.57m homes with satellite dishes, according to BARB.

Yet although the new channels are available in more than 15 per cent of UK homes, it has to be emphasised that their performance in terms of audiences and ratings has been modest. It is a rare satellite programme that has been able to assemble an audience of 1m and few apart from *The Simpsons* have achieved it.

Despite the rapid growth in the number of channels available, the new media still account for less than a third of

total viewing in homes which can receive satellite channels. This ratio looks like staying fairly constant, or only increasing slightly, as more channels are added. This suggests that satellite channels, at least at their present stage of development, will have to content themselves with sharing a finite amount of viewing time and rely instead for growth in getting their services into an increasing number of homes.

For instance, in March, before the latest burst of new channels on the Astra satellite such as Bravo, Discovery, Nickelodeon, the Family Channel, TNT/Caroon Network and UK Living, the official BARB figures show that the non-terrestrial channels took 29.4 per cent of viewing in cable and satellite homes. For the week ending September 19 with the new channels on stream, the total satellite share from more than 15 channels had risen only to 31 per cent - virtually the same as that achieved by the BBC with its two channels in new media homes.

It is, of course, early days for the new channels in the BSkyB package but according to BARB the average weekly viewing to Bravo in cable and satellite homes was 10 minutes, one minute ahead of Nickelodeon, although the Children's Channel was more successful at 13 minutes. The Family Channel was watched for an average seven minutes and UK Living for five minutes. This compared with an average 7 hours 23 minutes for ITV and even 1 hour 38 minutes for Channel 4 in cable and satellite homes.

Zenith Media, Saatchi & Saatchi's media buying arm, believes that by the year 2003 satellite's share of viewing in satellite homes will, at 33.3 per cent, have hardly moved at all. Increased penetration for cable and satellite will enable the new media channels to account for 17 per cent of total television in all homes by 2003 compared with their 1993 figure of 5.3 per cent.

More competition could yet be on the way in the UK television market. All hopes of establishing a national Channel 5 have not yet been abandoned. Following the decision last December by the Independent Television Commission to reject the only bid from a con-

sortium led by Thames Television, mainly on the grounds of inadequate shareholder commitment, the whole issue is being reviewed this autumn.

The ITC has called for expressions of interest by October 15 in three options:

● A national channel capable of reaching 74 per cent of the population, very similar to the one originally advertised.

● A much more local city-based television service, a concept that would need legislation to implement.

● Use of the Channel 5 frequencies as part of an overall plan to introduce digital television.

The ITC has made it clear that the UK could have as many as 100 television services if the existing four national channels were also to move to digital.

In practice, the ITC concedes, at least 10 years' notice would have to be given before ending existing broadcasts in PAL and there would have to be "simulcasting" - broadcasting the existing main channels in both PAL and digital. In most parts of the country this would still allow the introduction of new digital channels.

There could be as many as 20 new channels in some areas although the number would be much fewer in the south and south-east, where the spectrum is relatively crowded.

The ITV companies, still coming to terms with the effects of competitive tenders for their new franchises, are now debating what extra services could be offered to persuade consumers to buy the necessary decoders. There are

also suggestions that the new digital television services could effectively be funded by giving over part of the spectrum to the running of a digital communication system for industry and finance.

Despite the technological attractions of the endless choice being offered by digital, a number of serious players are still interested in running Channel 5 as a conventional television channel.

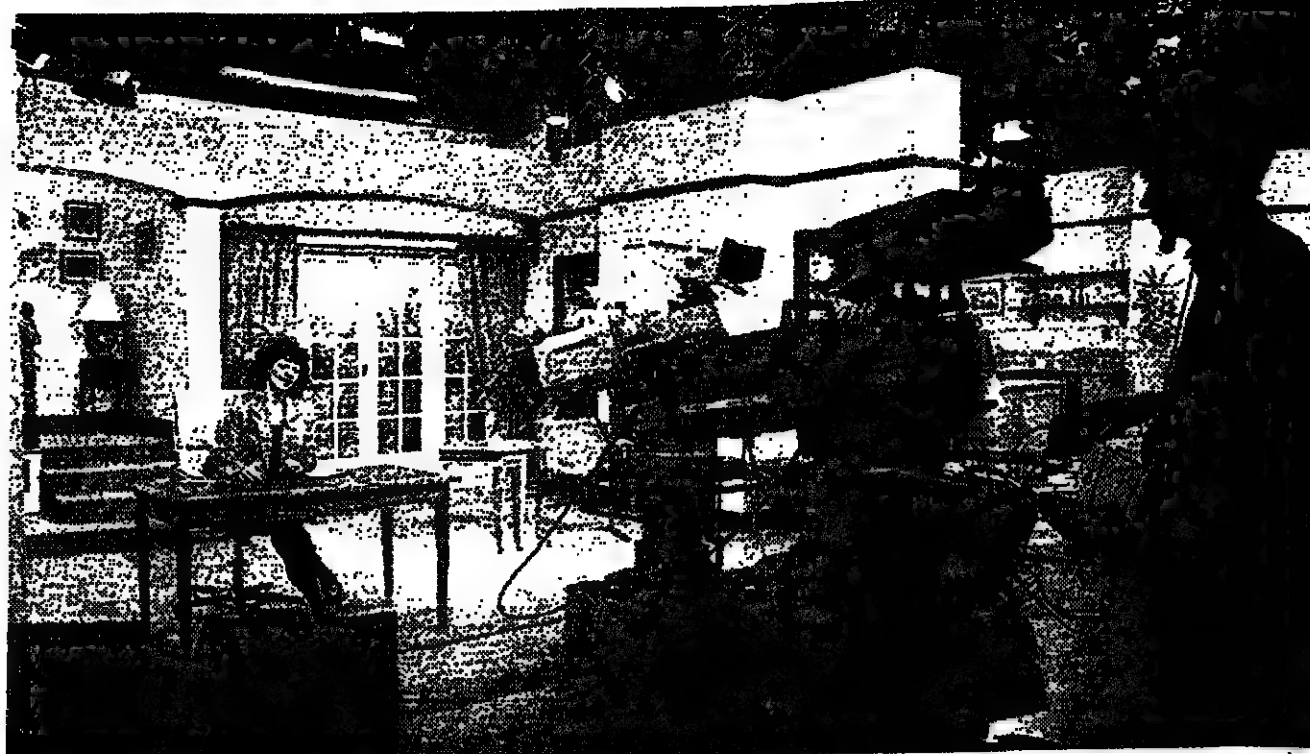
The big advantage is that unlike most of the ITV companies, the channel would not have to pay a percentage of its advertising revenue to the government and a small bid - Thames offered the minimum £1,000 a year - would be enough to win the franchise.

The main disadvantage is that any successful applicant will have to pay for the returning of millions of video recorders at present tuned in to the frequencies Channel 5 would use.

□ □ □  
Across Europe the new media, particularly cable, have been making considerable progress.

According to the 11th annual study of the European cable industry by CIT Research, the market research group specialising in communications, at the beginning of this year 68m out of western Europe's 152m television households had either cable television or a communal system fed by a satellite dish. A total of 30m homes were connected to cable networks, up from 28m the previous year.

About 40 per cent of Europe's



Rehearsals are already under way for QVC's 24-hour television channel in Battersea, London

cable homes are in Germany, where the Bundespost's Telekom division has been pursuing a vigorous building policy, with 30 per cent in the Low Countries and the rest elsewhere.

CIT believes that western European viewers spent nearly £600m on cable television in 1992 including pay TV revenues - up 24 per cent on 1991.

"Given that Europe is still in the teeth of recession, the industry can congratulate itself," CIT concludes.

By June this year, 12.8m German households were connected to cable networks, most of them in the western Lander.

There are also plans to spend DM550m on improving telecommunications in the east, DM3.5bn of which will be devoted to cable.

In France cable is at last beginning to grow steadily, although cable subscribers still account only for 5.5 per cent of the country's 20.6m television households, according to CIT.

The sixth Pan-European Television Audience Research survey, published earlier this year, was based on viewing figures from cable homes in Flanders and five European countries: Denmark, Germany, Netherlands, Norway and Sweden. It showed that the view-

ing of commercial channels transmitted by cable or satellite continued to expand at the expense of the state-owned and public service sector.

The audience shares of channels funded wholly or in part by licence fee now ranges from 32.1 per cent in Flanders to 56.3 per cent in Denmark.

In Germany, Europe's largest cable and satellite dish market, the public broadcasters achieved a 32.6 per cent share in new media homes, although this dropped to 25.5 per cent among the 16-34 age group.

The choice available somewhere in Europe continues to grow with more than 100 services available over both cable and satellite, not all subscription based.

Eurosport continues to provide Europe-wide competition for the UK-based Sky Sports and Euronews, the multilingual news and information service backed by more than a dozen public service broadcasters, is increasing its reach after a difficult birth at the beginning of this year.

By the end of August the channel was reaching 11m cable and communal dish homes and, with the help of rebroadcasting on conventional transmitters, was available in a total of 43m homes.

One of the most interesting uses of satellite television is to provide special services for eth-

nic minorities all over Europe. There are programming segments for Japanese and Chinese minorities, while TV Asia, the Asian channel on the Astra satellite, has expanded to 18 hours a day with programmes ranging from Indian and Pakistani films to daily news coverage in five Asian languages.

MBC, the Arabic language television station based in London, recently reached an agreement to co-operate with the Arab Network of America, the main Arabic language network of the US. There will be programme exchanges and joint productions.

MBC - the Middle East Broadcasting Centre - was launched more than two years ago and broadcasts its service all over Europe, North Africa and the Arabian Gulf.

Back at the former studios of TV-am Mr Bill Roedy, chief executive of MTV Europe, insists: "We don't take ourselves too seriously. It's only entertainment after all."

He is right, of course, about the ultimate significance of the new media and the technological driving force behind it - except that the new international channels will have growing cultural influence and new media empires will be created as public service monopolies give way, at least in part, to an era of greater choice and intensified competition.

## Eutelsat's bird takes wing

ASTRA IS the best-known television satellite system in Europe with three 16-channel satellites already co-located in space so that their channels can be received on a single dish. A further satellite is due to be launched next year and a fifth is planned.

But Eutelsat, the Paris-based European satellite organisation owned by the PTAs of Europe is intensifying the competition. It is trying to establish an alternative "hot bird system" - the satellites that everyone wants to be on - in opposition to Astra.

Mr Giuliano Berretta, marketing director of Eutelsat, concedes there

was no point in duplicating the service offered by Astra. As well as offering conventional European coverage, Eutelsat also offers a special wide beam which carries programmes to north Africa and on to the Middle East.

Already 37 television channels are carried on four Eutelsat satellites, ranging from Deutsche Welle, the international German broadcaster to the Egyptian satellite channel.

The organisation aims to concentrate as many channels as possible at 13 degrees east and plans to launch its 16 channel Hot Bird satellite next year. This month, the Eutelsat board will

decide on a third television satellite for the 13 degrees east position with up to 20 channels. The satellite - Hot Bird Plus - will be able to deliver digital satellite television direct to the home on dishes of 40cm diameter.

Eutelsat is already delivering channels to more than 30 homes attached to cable networks and direct to an estimated 3m homes.

By the end of last year 89 satellite television channels were available in Europe on four satellite systems and the number is likely to continue growing, particularly with the introduction of digital compression.



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# King defends LME copper squeeze move

MR. DAVID King, chief executive of the London Metal Exchange, has defended the action last month in imposing a limit on the cash premium for copper, which was being inflated by a technical squeeze on metal available for immediate delivery, reports Reuters.

He declined to elaborate on a statement he made at the time that the LME board had taken the action "in anticipation of the development of an undesirable situation", but he strongly defended the exchange against any suggestion of irregularity in the way the decision was taken.

Mr John Champagne, president of Magma Metals Company, has said he was extremely disappointed by the LME move. At a lunch of mining analysts last month, he also suggested that the exchange had too many short position holders on the board and criticised it for delaying announcement of its decision for one and a half hours.

"In view of the comments made in the press," said Mr King yesterday, "it is appropriate that people know that behind the scenes there are all sorts of checks and balances."

"Standard practice is that whenever significant decisions are made in the board, our compliance people automatically track trading activities of directors' firms. We need to be able to confirm that no advantage has been taken of that information."

He said he had been unable to read the decision across the floor of the market immediately because it was not in session.

"We announced the decision at the first available time in the afternoon when the market was operating," he declared.

"In wanting to ensure a level playing field we need really to announce it on the market floor," he explained. "Then all the ring fraternity instantly

# Bigger sugar shortfall forecast

THE SHORTFALL in world sugar supply is expected to be more than double next season, leading to sustained price rises, according to a report published today by S.D. & F. Man, the London trading house.

Man estimates that there will be a production deficit of 784,000 tonnes for October 1993 to September 1994 compared with 328,000 tonnes the previous year.

"The resulting draw down in stocks in a number of countries particularly in India and China leaves these markets without a buffer for further substantial de-stocking," it says.

A cloud of uncertainty hangs over the coming season, and many crops which suffered last year are not expected to recover fully, says Man.

"The resulting supply deficit is expected to have a more lasting influence on prices... In the 1993-94 season the possibility of further de-stocking has diminished and the prospects for white sugar supplies have declined."

Man predicts that world production, based on individual countries' crop years, will rise by nearly 1m tonnes to 112.4m tonnes compared with 1992-93, still well below the levels of the previous two years.

It puts consumption, which is calculated differently, using the October to September period, at 113.7m tonnes, an increase of 1.8m tonnes or 1.6 per cent on 1992-93.

Man has revised its production and consumption estimates for last season, bringing it into line with other forecasts. It has reversed its May forecast of a supply surplus of 562,000 tonnes into a deficit of 455,000 tonnes.

It accounts for the change by saying there has been a big fall in estimated sugar cane production and concomitant strong demand for white sugar from the former Soviet Union. Its estimate for Russian consumption last season now stands at 6.5m tonnes compared with 5.4m tonnes in May.

# Opec's September oil output above new ceiling

By Robert Corzine

ESTIMATES OF September production by the Organisation of Petroleum Exporting Countries show that it will have to cut output to reach its new ceiling of 34.52m barrels a day agreed last week in Geneva.

Opec's September oil output edged back up in September to 34.63m b/d after an August dip, but it seems to have remained below this year's peak, according to a Reuters survey released yesterday.

The September estimates compare with a revised 34.40m b/d in August and the 1993 high in July of 34.79m b/d. The agency attributed the August drop mainly to a temporary reduction by Iran, which it said appeared to have restored volume in September.

The Middle East Economic Survey estimated this week that Opec's September production was likely to be around 34.7m-34.8m b/d.

But neither the Opec production estimates nor political events in Russia have had any substantial impression on the oil markets. "They have decided in their collective wisdom that there is no danger to the supply of Russian oil," according to Mr Peter Gignoux, head of the energy desk at Smith Barney in London. "And as for Opec, they are just waiting for the dust to settle."

The price of Brent blend for November was \$17.10 in late London trading yesterday, compared with a closing price on Monday of \$17.12.

Nigeria has implemented a contingency plan to enable lifting of crude oil at loading terminals during a strike by inspectors, oil industry sources said yesterday. Reuters reports from Lagos. "They are still on strike," said an official of a major oil company. But "as far as I know loading is going on normally now".

The inspectors at loading terminals began an indefinite strike on Monday to press their demand for autonomy from the petroleum ministry.

# Lithuania seeks western help with exploration

By Matthew Karmali in Vilnius

Sea Search, a Dutch oil concern, and RWE-DEA, a subsidiary of the German group, are finalists in the competition for rights to a field near Klaipeda, the western Baltic port city, according to Lithuanian energy ministry officials. A contract should be awarded by the end of this month.

The two companies had expressed interest along with Svenska Petroleum, Neste and Knight, a US company - which, the officials said, also made preliminary offers before pulling out. This contract will follow an April agreement between Svenska Petroleum and Lithuania's Gazdadijau Enterprise to form a joint-venture to develop the north-western fields.

Exploration of the Baltic offshore fields awaits the resolution of political questions. With newly independent states still settling sea borders, Russia and Lithuania are bickering over rights to a field that lies in Lithuanian and the Kaliningrad region's waters.

Mr Robertas Timosinas, a Lithuanian deputy minister of energy, expects that the disputed area designated as D-4, a tiny plot with some 7m tonnes of oil, will be divided between the two countries. Negotiations are continuing.

The undisputed offshore field holds an estimated 150m tonnes of crude, about a quarter of it recoverable, and needs outside investment as the Lithuanians cannot afford exploration efforts.

The state's refining business similarly lacks western money and know-how to stem the decline in supply and output since the collapse of the Soviet Union.

After a two and a half year dispute with environmentalists, Lithuania plans to restructure the Mazzeiki refinery. A modern structure dependent on imports from former Soviet republics, Mazzeiki operates below its 12m tonnes-a-year capacity.

An \$245,000,000 (\$25,000) grant from the European Bank for Reconstruction and Development will help restructuring efforts, plans for which are being drawn up by the US consortium N.M. Rothschild and

Trichem.

The eventual programme, which Lithuanian officials expect to cost less than \$80m, will include a new hydrocarbons port on the Baltic near the Butinge area, a pipeline connecting it with Mazzeiki and renovations at the refinery itself.

The Baltic state, weary after two years of intermittent Russian supplies and infrequent payments for deliveries, wants a western partner to ease the move into new markets.

Above all, however, a refinery needs crude oil. "We're looking for an investor who can guarantee consistent delivery," Mr Timosinas said.

# MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

**ANTIMONY:** European free market, 99.6 per cent, \$ per tonne, in warehouse, 1,570-1,615 (same).

**BISMUTH:** European free market, 99.99 per cent, \$ per lb, tonne lots in warehouse, 2,300-2,500 (same).

**CADMIUM:** European free market, 99.5 per cent, \$ per lb, in warehouse, 0.39-0.44.

**CORAL:** MB free market, 99.8 per cent, \$ per lb, in warehouse, 12.00-12.40 (12.00-12.55); 99.3 per cent, \$ per lb, in warehouse, 11.00-11.45 (11.00-11.40).

**MERCURY:** European free market, 99.99 per cent, \$ per 76 lb flask, in warehouse, 96-110 (same).

**MOLYBDENUM:** European free market, drummed molybdenic oxide, \$ per lb Mo, in warehouse, 2.45-2.50 (2.40-2.50).

**SELENIUM:** European free market, min 99.5 per cent, \$ per lb, in warehouse, 4.55-5.30.

**TUNGSTEN ORE:** European free market, standard min. 65 per cent, \$ per tonne unit (00 kg) WO<sub>3</sub>, cfd, 26-37 (same).

**VANADIUM:** European free market, min. 98 per cent, \$ a lb V<sub>2</sub>O<sub>5</sub>, cfd, 1.30-1.45 (1.35-1.40).

**URANIUM:** Nuxeo exchange value, \$ per lb, U<sub>3</sub>O<sub>8</sub>, 6.90 (same).

# Analysts expect smaller Florida orange crop

THE 1993-94 Florida orange crop could be as low as 160m boxes or as high as 190m, but most analysts' estimates are concentrated in the 165m- to 175m-box range, reports Reuters from New York.

That is well below last year's figure of 186.5m 90-lb boxes issued by US Department of Agriculture, which was the state's third largest orange harvest.

Analysts said brisk activity on New York Cotton Exchange's frozen concentrated orange juice futures market was linked to recent buying ahead of USDA's report, due for release October 12. Ms Celeste Georgakis, first vice president futures specialist with Dean Witter, said uncertainty would continue until the release of the estimate.

"But most of the consensus is still pointing toward 165m to 185m," she said. "I feel the estimate could come in the mid-170m box area."

Factors that could hurt this season's production included a late cold snap last winter in Florida, which was reported to have killed some bloom, and some outbreaks of blossom blight disease, according to analysts.

# Caribbeans lose interest in sowing cotton

## Canute James reports on the decline of the famed sea island fibre

A COMBINATION of apathetic farmers, rows among investors and legal disputes over trademarks has led to a decline in the production of sea island cotton in the Caribbean, where efforts to diversify agriculture on the island, which is based mainly on the production of sugar cane, "are now a different problem as, while prices are up, farmers are uncertain about stepping into another form of agriculture," says Mr Spence.

He explains that cotton less hardy than cane, and demands greater attention and care from farmers. Many farmers consider this higher degree of husbandry as not being worth the effort. "With cotton one needs to establish the proper infrastructure, and much of this has been missing. The plant is easily affected by pests, a closed season is needed for the crop and the entire industry needs to be regulated."

In the 1950s there were more than 5,000 hectares under sea island cotton in the four islands; this year the crop is growing on only about 200ha. The problems that trouble the potentially lucrative industry are illustrated by the failure of one plan to increase production.

The government of Barbados, the leading producer of

Eight years ago the government of Guyana, located on the north eastern shoulder of South America, offered to provide 40,000ha for a joint venture with the four islands to produce sea island cotton. But the project was aborted when it was revealed that, legally, the term "sea island cotton" could be applied only to the product grown in specified islands in the eastern Caribbean.

"Sea island cotton is different from all others in that it has the longest and finest fibre in the world," explained Mr Spence. "It can be spun into the world's finest yarns to make the best fabrics. There have been one or two cases in which there have been attempts to equate cotton from other parts of the world with sea island cotton. Some Egyptian and some Indian cotton have some of the qualities of sea island cotton. But the only pure sea island cotton is grown in the West Indian islands."

There has been foreign interest in kick-starting production of the prized fibre in significant quantities. Japanese investors have offered to buy 800,000lb of the product each year from Caribbean producers, but farmers could not guarantee consistent delivery in such quantities.

The four islands established a company, in which Southalls of Canada was a major investor with a plan to spin cotton and produce fabric and garments in the region. Faltering production and disagreements among the partners over management practices left the venture unable to meet its targets. The small quantities being produced in the eastern Caribbean are being sold to Japanese trading houses. All spinning and weaving of sea island cotton is done in Japan.

The faltering industry has also been adversely affected by legal arguments over the use of the sea island cotton trademark. Producers have alleged that US companies have attempted to pass off high quality Egyptian cotton as the sea island product.

"Because demand is high and production is low, there will always be an opportunity for some people to claim that what they have is the genuine product," said a former Barbadian cotton farmer. "There is a good market for the product but farmers have long memories and the earlier problems do not encourage many to jump into cotton production."

# MARKET REPORT

THE COCOA market made a fresh attempt at breaking overhead resistance but, as on Monday, early gains were lost in the afternoon. "It's been a funny old day - a bit like yesterday," one trader said. "Every time we run up a little, the market doesn't see any real follow-through buying." The March futures position at the London Commodity Exchange ended \$3 up at \$97.0 a tonne, after touching \$97.8 at one stage. At the London Metal Exchange ZINC trading slackened in the afternoon after a lively start. A speculative surge after late overhead resistance above \$92.0 a tonne for three months

metal and the price ended after hours trading at \$91.8 a tonne, up \$13. The LEAD market moved away from early 20-year lows on late commission house buying and covering, although prices still finished softer following a morning mini-collapse. The final three months delivery price was \$371 a tonne, down \$7 on balance but \$8 above the low. Despite 1994 consumer interest and option business, the market's short-term fundamentals were poor, with supply continuing to outpace demand, traders said.

# London Markets

SPOT MARKETS	Change
Crude oil (per barrel FOB Nov)	+0.05
Diesel	\$14.95-14.98
Brent Blend (index)	\$17.70-17.72
Brent Blend (Nov)	\$17.70-17.72
WTI (1 pm est)	\$16.45-16.48
Oil products	
WAVE prompt delivery per tonne CIF	+0.05
Premium Gasoline	\$18.18-18.20
Gas Oil	\$17.15-17.18
Heavy Fuel Oil	\$16.15-16.18
Naphtha	
Petroleum Argus Estimate	
Other	
Gold (per troy oz)	\$383.25
Silver (per troy oz)	\$10.50
Platinum (per troy oz)	\$1,250.00
Palladium (per troy oz)	\$1,250.00
Copper (US Producer)	\$65.50
Lead (US Producer)	\$65.50
Tin (Kuala Lumpur market)	\$203.50
Tin (New York)	\$203.50
Zinc (US Prime Western)	\$22.00
Cattle (live weight)	\$1.74
Sheep (live weight)	\$1.50
Pigs (live weight)	\$2.00
London daily sugar (raw)	\$27.00
London daily sugar (white)	\$28.00
Tell and Lyle export price	\$28.50
Barley (English feed)	110.00
Maize (US No. 3 yellow)	\$1.68-1.69
Maize (US Dark Northern)	\$1.68-1.69
Rubber (RSS 1)	\$0.80
Rubber (RSS 2)	\$0.75
Rubber (RSS 3)	\$0.70
Rubber (RSS 4)	\$0.65
Coconut (Philippines)	\$1.00
Palm Oil (Malaysian)	\$27.50
Cocoa (Philippines)	\$1.00
Cocoa (US)	\$1.00
Cocoa (UK)	\$1.00
Wool (UK Super)	\$2.00

# Commodity Prices

CRUDE OIL - \$/bbl	Change
Nov	17.12
Dec	17.18
Jan	17.28
Feb	17.38
Mar	17.48
Apr	17.58
May	17.68
Jun	17.78
Jul	17.88
Aug	17.98
Sep	18.08
Oct	18.18
Nov	18.28
Dec	18.38
Jan	18.48
Feb	18.58
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FINANCIAL TIMES WEDNESDAY OCTOBER 6 1993

## INVESTMENT TRUSTS - CONT.

[illegible]

Greenbrier	400	+1	400
Warrants	100		101

[illegible]

Johnson Fry Ultra... <b>M</b>	118	+1	120
Zero Prof	111 1/2		111 1/2

[illegible]

<b>4 G Recovery Inc.</b> <b>Capital</b>	<b>30</b> <b>200</b>	<b>100</b> <b>100</b>	<b>41</b> <b>200</b>
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[illegible]

Ray Spill Inc. — 4K	378	+5	378	294
	92	—	103	0
	123	+7	127	0

[illegible]

Div P1 312 312 312 312

5.1	210.7	0.3	St Andrew	-	274	239	774
5.7	221.1	0.0	St Daniel's Inc	M	138	146	215
-	142.8	-4.3	Cap		198	+1	158
-	-	-	Zero Pkt		1441	-	145
3.0	212.9	6.0	LUK Inc	↑	218		197
0.2	88.3	5.5	Cap		1040	+10	120
-	-	-	Schwabert Acctns Fund	-	671		740
0.4	380.2	8.7	Warrants		288		340
1.5	384.3	11.0	Schwabert Split Inc (M)		115		121
4.7	286.6	25.7	Capital		27	+2	29
-	-	-	Zero Pkt		1040	-	145



INVESTMENT TRUSTS - Cont.

Stock	Price	% Chg	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	99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Prices are in pence unless otherwise indicated and are  
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to the value of the fund's assets at the end of the month.  
Discretionary fund of UK tax: \* Periodic premium insurance  
plans, a single premium insurance, is designated as a UK  
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company. \* Previous day's price. 50p German (gross).  
Supplemented. \* Yield before Jersey tax. \* Yield estimate.  
Only available to charitable bodies. \* Yield estimate.  
\* Yield estimate.  
\* Funds not SIC recognized. The regulatory authorities  
these funds are: Germany: Federal Securities Commission  
Institut Central Bank of London; UK: Investment  
Prizes are: Germany: Federal Securities Commission  
Luxembourg: Institut Central Bank of London; UK: Investment



## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGE

## Dollar recaptures lost ground

THE US dollar regained some of its early losses yesterday as investors took a more balanced view of events in Russia and hopes of positive US economic data at the end of the week, writes Peter John.

It weakened against the D-Mark in early European trade, hitting DM1.6140 at one stage and settling at DM1.6173 at the midday price fixing in Frankfurt. From there it rallied strongly throughout the afternoon as the market looked towards the publication of non-farm payroll figures - the most important monthly business indicator in the US - on Friday. The rally was further helped by encouraging housing figures - US housing completions for August rose 11.3 per cent after a revised fall of 6.4 per cent in July - and by the close in London the dollar had ticked back up to DM1.6235, barely changed on the day.

It also pulled back more than a cent from an early low against the pound to close at \$1.5170 in London, against \$1.5150 on Monday.

The US currency has slumped from just under DM1.75 at the time of the collapse of the European exchange rate mechanism at the beginning of August and

## E IN NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

Forward premium and discount rates at the US

## STERLING INDEX

Oct 5	Oct 4	Oct 3
83.00	82.95	82.95
83.00	82.95	82.95
83.00	82.95	82.95
83.00	82.95	82.95

## CURRENCY RATES

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## CURRENCY MOVEMENTS

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## OTHER CURRENCIES

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## MONEY MARKETS

## Conditions soften

THE MORE relaxed trend in the UK money markets continued yesterday as a number of operators sat back and waited for clues on impending monetary policy to filter from the Tory party conference, writes Peter John.

Short sterling maintained its very tight range and the Bank of England operations were completed by midday.

The central bank offered the money market an early round of assistance after forecasting a liquidity shortage of around £900m.

The shortage, slightly less than recent days, was well bid and easily taken up.

Among the main factors affecting the position were the take-up of Treasury Bills and paper maturing in official hands which were expected to drain £370m from the system.

Bills for repurchase by the market took out £647m and bankers' balances below target removed £150m. Partly offsetting these, Exchequer transactions added £50m and a fall in note circulation injected £115m.

The Bank provided £750m of early assistance, buying £750m of bills for resale to the market in equal amounts on October

by mid-September it had reached a low of DM1.5880. The fall was fuelled by growing nervousness over the state of the economy. Since then, dealers have decided that the currency was oversold and there has been a technical rally.

The D-Mark joined an across-the-board rise in German financial markets as a sign of relief that the status quo in Russia appeared to have been restored: the DAX index gained more than 2.5 per cent to close at a record high and bond futures rose nearly half a percentage point at best.

The currency held away in Europe reflecting a belief that the German Bundesbank will not reduce key interest rates at its council meeting tomorrow. However, it had already risen strongly against the dollar on Monday in response to President Yeltsin's victory and the rally proved unsustainable. Sterling failed to respond to

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

Forward premium and discount rates at the US

## STERLING INDEX

Oct 5	Oct 4	Oct 3
83.00	82.95	82.95
83.00	82.95	82.95
83.00	82.95	82.95
83.00	82.95	82.95

## CURRENCY RATES

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## CURRENCY MOVEMENTS

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## OTHER CURRENCIES

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## FINANCIAL FUTURES AND OPTIONS

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## LONDON (LEFFE)

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## CHICAGO

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## FINANCIAL FUTURES AND OPTIONS

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## LONDON (LEFFE)

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## CHICAGO

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

Oct 5	Oct 4	Oct 3
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142
1.5150-1.5170	1.5132-1.5142	1.5132-1.5142

## NEW YORK

0.00	94.82	94.73	-	44.5
0.00	96.07	95.03	-	28.9
Interest	262,026			
<hr/>				
+27.8	2179.0	2159.0	-	38.8
+26.5	2189.0	2175.5	-	6
+26.5	2302.5	2168.0	-	28
+27.0	2226.0	2226.0	-	4.2
Interest	78,530			
<hr/>				
+0.28	118.10	117.90	-	12.0
Interest	19,092			



	Stocks	Closing	Change		Stocks	Closing	Change
	Traded	Price	on day		Traded	Price	on day
Faloua	3.8m	820	+10	Sharp Corp.	2.8m	1,660	+10
Nippon Steel	3.8m	320	-4	Toyota Motor	2.8m	1,750	+40
NKK Corp.	3.3m	268	+2	Ishizu Motors	2.8m	400	-7
Hitech	3.1m	824	+10	Mitsubishi Ryd	2.5m	845	
Tokyo Gas	3.1m	615	-2	Tokyo Kasei Pwr	2.5m	3,370	-50

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993			1992			1991			1990			1989			1988			1987			1986			1985			1984			1983			1982			1981			1980			1979			1978			1977			1976			1975			1974			1973			1972			1971			1970			1969			1968			1967			1966			1965			1964			1963			1962			1961			1960			1959			1958			1957			1956			1955			1954			1953			1952			1951			1950			1949			1948			1947			1946			1945			1944			1943			1942			1941			1940			1939			1938			1937			1936			1935			1934			1933			1932			1931			1930			1929			1928			1927			1926			1925			1924			1923			1922			1921			1920			1919			1918			1917			1916			1915			1914			1913			1912			1911			1910			1909			1908			1907			1906			1905			1904			1903			1902			1901			1900			1899			1898			1897			1896			1895			1894			1893			1892			1891			1890			1889			1888			1887			1886			1885			1884			1883			1882			1881			1880			1879			1878			1877			1876			1875			1874			1873			1872			1871			1870			1869			1868			1867			1866			1865			1864			1863			1862			1861			1860			1859			1858			1857			1856			1855			1854			1853			1852			1851			1850			1849			1848			1847			1846			1845			1844			1843			1842			1841			1840			1839			1838			1837			1836			1835			1834			1833			1832			1831			1830			1829			1828			1827			1826			1825			1824			1823			1822			1821			1820			1819			1818			1817			1816			1815			1814			1813			1812			1811			1810			1809			1808			1807			1806			1805			1804			1803			1802			1801			1800			1799			1798			1797			1796			1795			1794			1793			1792			1791			1790			1789			1788			1787			1786			1785			1784			1783			1782			1781			1780			1779			1778			1777			1776			1775			1774			1773			1772			1771			1770			1769			1768			1767			1766			1765			1764			1763			1762			1761			1760			1759			1758			1757			1756			1755			1754			1753			1752			1751			1750			1749			1748			1747			1746			1745			1744			1743			1742			1741			1740			1739			1738			1737			1736			1735			1734			1733			1732			1731			1730			1729			1728			1727			1726			1725			1724			1723			1722			1721			1720			1719			1718			1717			1716			1715			1714			1713			1712			1711			1710			1709			1708			1707			1706			1705			1704			1703			1702			1701			1700			1699			1698			1697			1696			1695			1694			1693			1692			1691			1690			1689			1688			1687			1686			1685			1684			1683			1682			1681			1680			1679			1678			1677			1676			1675			1674			1673			1672			1671			1670			1669			1668			1667			1666			1665			1664			1663			1662			1661			1660			1659			1658			1657			1656			1655			1654			1653			1652			1651			1650			1649			1648			1647			1646			1645			1644			1643			1642			1641			1640			1639			1638			1637			1636			1635			1634			1633			1632			1631			1630			1629			1628			1627			1626			1625			1624			1623			1622			1621			1620			1619			1618			1617			1616			1615			1614			1613			1612			1611			1610			1609			1608			1607			1606			1605			1604			1603			1602			1601			1600			1599			1598			1597			1596			1595			1594			1593			1592			1591			1590			1589			1588			1587			1586			1585			1584			1583			1582			1581			1580			1579			1578			1577			1576			1575			1574			1573			1572			1571			1570			1569			1568			1567			1566			1565			1564			1563			1562			1561			1560			1559			1558			1557			1556			1555			1554			1553			1552			1551			1550			1549			1548			1547			1546			1545			1544			1543			1542			1541			1540			1539			1538			1537			1536			1535			1534			1533			1532			1531			1530			1529			1528			1527			1526			1525			1524			1523			1522			1521			1520			1519			1518			1517			1516			1515			1514			1513			1512			1511			1510			1509			1508			1507			1506			1505			1504			1503			1502			1501			1500			1499			1498			1497			1496			1495			1494			1493			1492			1491			1490			1489			1488			1487			1486			1485			1484			1483			1482			1481			1480			1479			1478			1477			1476			1475			1474			1473			1472			1471			1470			1469			1468			1467			1466			1465			1464			1463			1462			1461			1460			1459			1458			1457			1456			1455			1454			1453			1452			1451			1450			1449			1448			1447			1446			1445			1444			1443			1442			1441			1440			1439			1438			1437			1436			1435			1434			1433			1432			1431			1430			1429			1428			1427			1426			1425			1424			1423			1422			1421			1420			1419			1418			1417			1416			1415			1414			1413			1412			1411			1410			1409			1408			1407			1406			1405			1404			1403			1402			1401			1400			1399			1398			1397			1396			1395			1394			1393			1392			1391			1390			1389			1388			1387			1386			1385			1384			1383			1382			1381			1380			1379			1378			1377			1376			1375			1374			1373			1372			1371			1370			1369			1368			1367			1366			1365			1364			1363			1362			1361			1360			1359			1358			1357			1356			1355			1354			1353			1352			1351			1350			1349			1348			1347			1346			1345			1344			1343			1342			1341			1340			1339			1338			1337			1336			1335			1334			1333			1332			1331			1330			1329			1328			1327			1326			1325			1324			1323			1322			1321			1320			1319			1318			1317			1316			1315			1314			1313			1312			1311			1310			1309			1308			1307			1306			1305			1304			1303			1302			1301			1300			1299			1298			1297			1296			1295			1294			1293			1292			1291			1290			1289			1288			1287			1286			1285			1284			1283			1282			1281			1280			12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## Bourses rise in response to interest rate theory